Choosing the right sourcing model for CRE outsourcing agreements

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Abstract

Modern outsourcing is more than a typical make–buy decision. Rather, there is a wide range of sourcing business models that today's practitioners can choose from. Unfortunately, the fundamental nature of how goods and services are procured is not keeping pace with best practices of tapping into more mature sourcing business models; many business professionals wrongly assume that a transaction-based business model is the only way

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to architect a supplier contract. This paper provides an easy to understand framework for classifying the various contracting approaches along a sourcing continuum. A key goal of the paper is to help organisations not just understand the various models, but also learn when to use each model. The paper suggests an easy to follow 'Business Model Mapping' approach organisations can use to make the decision about what is the most appropriate sourcing business model for their situation.

Keywords: sourcing, sourcing business models, real estate, facilities management, outsourcing, Vested Outsourcing

INTRODUCTION

Are you using the most appropriate sourcing business model for your corporate real estate (CRE) outsourcing agreement? If you are not sure, this paper is for you. Section 1 sets the context with a brief overview of why it is essential to look beyond a simple 'make vs buy' decision when outsourcing and instead to consider which sourcing business is most appropriate. This is especially important as organisations find themselves in larger, more complex and riskier CRE environments.

Section 2 provides an easy to understand framework for understanding the various sourcing business models available to CRE professionals. This framework is especially helpful for those that might be new to CRE outsourcing and may not be familiar with each of the models. Here we provide a brief overview of each model and an example of each of the models in practice.

Section 3 proposes a four-step 'business model mapping' process which can help CRE professionals determine which sourcing business model is the most appropriate for their situation based on the nature of their environment. Whether you are new to outsourcing or have many deals under your belt, this section provides excellent insight to ensure you are making the right decision on which sourcing model is most appropriate.

SOURCING AS A CONTINUUM

For centuries organisations have thought of procurement as a basic 'make vs buy' decision. This was especially true as organisations explored outsourcing. Many falsely assume if they 'buy', they should use competitive market forces to ensure they are getting the best deal. This default approach uses a transaction-based model, which works well for simple transactions with abundant supply and low complexity where the market can correct itself. After all, if a supplier does not perform, just rebid the work.

But as organisations outsource more complex and strategic goods and services, transaction-based logic falls short. All too often buyers become co-dependent on suppliers, switching costs are high and suppliers have a 'locked-in' position.

Oliver E. Williamson, professor of economics at the University of California, Berkeley, challenged the traditional view of sourcing relationships with his work in Transaction Cost Economics beginning in the late 1970s. He received the Nobel Prize for his work in 2009.

One of Williamson's key lessons is that organisations should view sourcing as a continuum rather than a simple market-based make vs buy decision.

A good way to view Williamson's work is to consider free-market forces on one side and what Williamson refers to as 'corporate hierarchies' on the other (see Figure 1). In the middle, Williamson advocated that organisations should use a 'hybrid' approach for complex contracts.

The organisations that move along the sourcing continuum to more sophisticated sourcing business models are able to drive process improvements and even innovation through closer collaboration as they bring 'relational' aspects into their supplier agreements (see Figure 2).

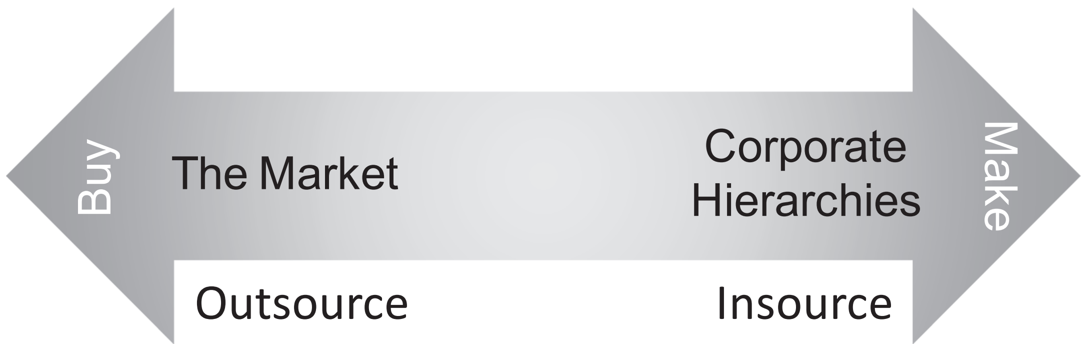

Figure 1 A continuum of outsourcing solutions

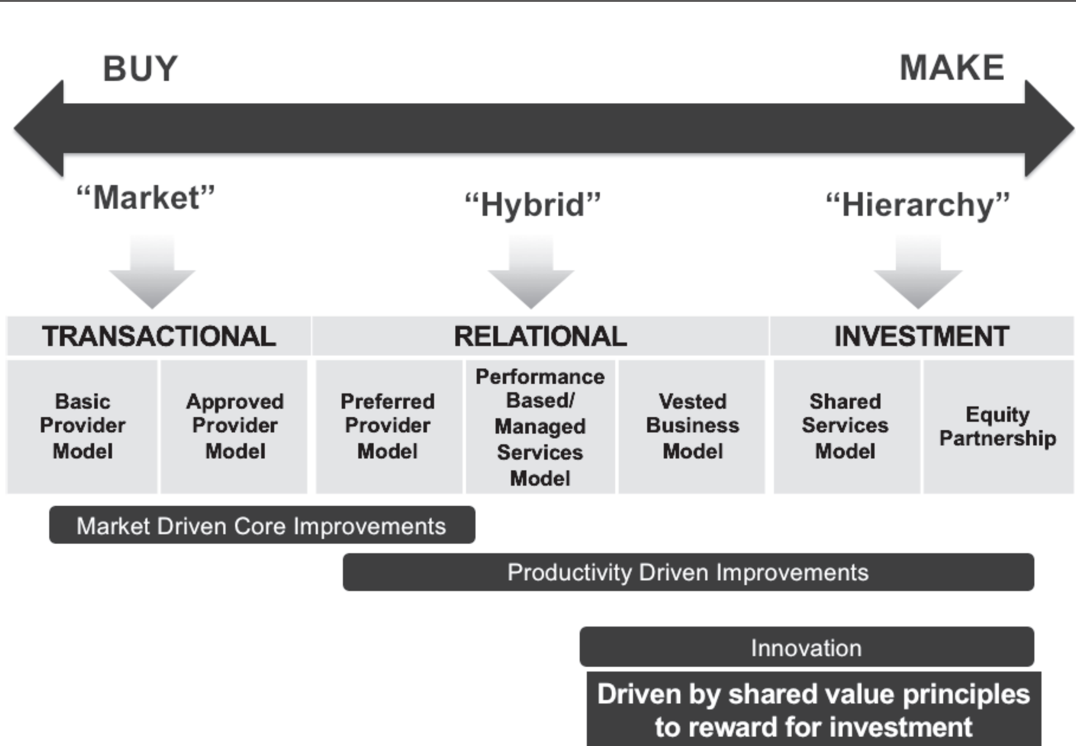

Figure 2 University of Tennessee researchers have 'mapped' seven common sourcing business models against Williamson's continuum

AN OVERVIEW OF THE SEVEN SOURCING BUSINESS MODELS

No single sourcing model is better than the other. It is about which can best meet the needs for what you are trying to achieve. This section provides a brief overview of each model and is especially helpful for those that might be newer to outsourcing CRE services.[1] A short example is also provided showing how each model has been effectively applied in CRE outsourcing.

BASIC PROVIDER MODEL

A basic provider model is used to buy low-cost, standardised goods and services in a

market where there are many suppliers and switching suppliers has little or no impact on the business. Buyers typically use frequent competitive bidding, often with the aid of automated procurement processes and tools such as pre-established electronic auctions. A purchase requisition usually triggers transactions that signal that the buying company agrees to buy preset quantities of goods or tasks.

The buyer–supplier relationship is based largely on a review of performance against basic criteria. For example, did the supplier work the hours claimed? Did the goods received meet the agreed to quantity, cost and delivery times?

Example

A hospitality organisation with several properties purchased a variety of low cost basic food items such as condiments, snack items and pasta on a decentralised basis. When the organisation brought in a strategic sourcing specialist, a quick spend analysis revealed the organisation was spending multi-millions of dollars in annual spend on over 16,000 'standard' items across all its properties.

The organisation implemented a standard online e-auction tool that was used by all properties. Item requirements were entered into the e-auction tool, the suppliers in the marketplace placed their bids and the lowest priced supplier won the order. No negotiations were conducted, a purchase order was generated using standard terms and conditions and distribution programme. Shifting to an e-auction platform enabled the organisation to better utilise their purchasing resources to focus on higher cost items.[2]

APPROVED PROVIDER MODEL

To create a seamless and readily accessible supply chain, many organisations develop lists of approved providers. A preapproved list saves time when seeking particular goods and services. The approval process also ensures parity between qualified suppliers. As an organisation selects its approved provider list, it moulds the required qualifications to its unique business objectives and strategy.

Typically, approved providers are identified as prequalified options in the pool of basic providers. To reach approved status, suppliers frequently offer some level of differentiation such as a cost or efficiency advantage for the buyer. The differentiation could come in the form of a geographical location advantage, a cost or quality advantage or status as a minority owned business. An approved provider may or may not operate under a Master Agreement, which is an overarching contract with the buying organisation.

Example

A large global technology firm was expanding rapidly worldwide and was purchasing design services locally on a project-by-project basis. This was time consuming and inefficient and resulted in a wide array of service providers in use. In addition, given the tech firm's rapid growth, the existing process made it difficult to maintain standardised branding and forecast costs accurately as each project was delivered by suppliers who likely worked on one or only a few projects.

The company wanted to improve the procurement process, drive consistency in brand management and expedite the project timeline. However, because it was entering so many new markets across the world, it did not feel a single design/project management firm could cover all regions. To address these concerns, the company chose to implement an 'on-call' design model where a selection of three project management/design firms globally would be preapproved. Through a comprehensive bid process many firms were vetted for quality and performance as well as

price. Ultimately three firms were approved for use around the globe and standard cost structures were negotiated.

Using an approved provider model enabled the company to maintain consistent branding, as the approved firms were required to be well-versed in the corporate standards and to follow the standardised service delivery process. It also created tremendous time efficiencies across the organisation as it precluded the need to for each region to take each project to bid. Instead the project managers could quickly select the best provider to meet the needs of their project, while being assured the work would be delivered in a standardised fashion for an agreed upon, competitive price. Additionally, it enabled the company to forecast the cost of their growth much more effectively given the standard rates, and centralised data collection.

PREFERRED PROVIDER MODEL

In a preferred provider model, the buyer has made the choice to move to a supplier relationship where there is an opportunity for the supplier to add differentiated incremental value to the buyer's business to meet strategic objectives. Most preferred provider relationships have multi-year contracts using Master Agreements that allow them to conduct repeat business efficiently.

The more strategic nature of a preferred provider almost always integrates the supplier into the buyer's business processes, which creates the need for a more collaborative 'relational' approach. While preferred providers still use transaction-based economic models (they charge per unit, per hour, per project), the parties begin to consider how a supplier can provide value-added services to drive productivity efficiencies or higher service levels. For example, a preferred provider may have superior software that interfaces with an organisation's own system, streamlining operations.

Example

A global medical device organisation had doubled in size due to a large strategic acquisition. The combined organisation had a significant cost saving target tied to the acquisition and the real estate organization was tasked with identifying consolidation opportunities. Prior to the acquisition, each firm had historically used individual real estate brokers on an ad hoc basis.

Like the project management challenge above, the company needed to establish a consistent level of service and expedite the process of executing the transactions. It also wanted to ensure effective implementation of an overall strategy. The medical device organisation decided to enter into a preferred provider relationship with a supplier. However, it did not want to be locked into a single provider that might not have the breadth and depth of coverage required to support the ongoing needs of the portfolio in the future. Using a preferred provider model enabled the company to preserve the ability to use other providers should the selected firm not have the bandwidth to address unique needs that might arise.

PERFORMANCE BASED/MANAGED SERVICES MODEL

A performance based (or managed services model) is generally a formal, longer-term supplier agreement that combines a relational contracting model with an output based economic model. The sourcing decision is based not only on a supplier's ability to provide goods or service at a competitive cost, but also on its ability to drive productivity improvements in terms of cost savings and increased service levels based on its core competencies. Performance based agreements shift thinking away from activities to predefined *output*s.

A performance based agreement typically creates incentives and/or penalties based on a supplier's ability to meet pre-agreed

Service Level Agreements (SLAs) or Key Performance Indicators (KPIs). Typically, a supplier puts a portion of their management fee 'at risk', with payment tied directly to the supplier's ability to perform against the SLAs.

It is important to understand that a performance based agreement should hold a supplier accountable only for what is under its control. If the SLAs or KPIs are not clearly defined, it can lead to misalignment in client goals and supplier performance.

Performance based agreements require a higher level of collaboration than preferred provider contracts because there is a higher degree of integration between the supplier and the buying organisation. In addition, the buyer and supplier need to apply a more formalised governance structure to review performance against objectives and determine the incentive or fee at risk component of the contract.

Example

The CRE organisation at a global financial services organisation was responsible for delivering a wide array of facility management services spanning millions of square feet across hundreds of facilities around the world. Services ranged from standard repairs and maintenance services, to interior plants, utility management, occupancy planning and move management and janitorial services.

The organisation had been outsourcing to preferred providers in each region with success, but wanted to gain further synergies and efficiencies. The organisation decided to implement an integrated facilities management performance-based contract with one selected provider.

The basic contract structure defined SLAs that clearly state the expected SLAs/KPIs for each of the services in the scope of work. Unlike transaction-based agreements, a performance based contract does not dictate to the supplier how the work is to be performed, or how many staff are required on site. It simply defines the end result (output) the supplier is expected to deliver through SLAs. The method of delivery is left to the supplier's discretion.

The performance-based agreement also directly tied the supplier's profitability to performance. A portion of the supplier's management fee was placed at risk based upon the supplier's ability to deliver to expectations as defined by the KPIs. Additionally, in order to incent the supplier to implement changes that create value to the client without diminishing service levels, there was a 'gainsharing' incentive component that provided the supplier an upside in profitability for reducing costs.

Use of a performance-based model incentivised the supplier to perform to contractual SLAs and encouraged the supplier to add value beyond the minimum requirements to earn additional profit through the cost savings gainshare. The relationship generated a 25 per cent savings in cost in year one and improved customer satisfaction by 8 per cent.

VESTED SOURCING BUSINESS MODEL

A Vested sourcing business model is a hybrid relationship that combines an outcome-based economic model with a relational contracting model. The Vested model also incorporates Nobel Prize winning concepts of behavioural economics and the principle of shared value. Using these concepts, companies enter into highly collaborative arrangements designed to create and share value for the buyer and supplier above and beyond conventional buy–sell economics of a transaction-based or performance-based agreement.

The Vested model demands for a high degree of collaboration and transparency because the organisation outsourcing and the supplier have an economic interest in each other's success. In short, the parties are

equally committed (Vested) to each other's success.

A Vested business model is best used when an organisation has strategic transformational and/or innovation objectives that it cannot achieve by itself or by using conventional transactional sourcing business models (basic provider, approved provider, preferred provider) or a performance-based agreement.

These transformational or innovation objectives are referred to as 'desired outcomes'. A desired outcome is a measurable strategic business objective that focuses on what will be accomplished as a result of the collaboration. Desired outcomes are not task oriented or output focused SLAs, but rather, are strategic in nature and often can only be achieved with a high degree of collaboration between the buyer and provider and/or with investment by the supplier.

Example

Novartis decided to outsource its real estate and facility management (FM) operations in 2010. Novartis leveraged its purchasing power to sign a five-year performance-based contract with Jones Lang LaSalle that year, spanning 24 Novartis sites in North America.

The performance-based agreement worked well. Novartis had gained operational stability with a green scorecard and was achieving financial targets per the performance-based savings glidepath.

By year three, Novartis and JLL felt they had outgrown the contract. Both parties wanted much more than just year-over-year glidepath results, but to reach the next level it was clear the contract and existing behaviours needed to change from a performance-based agreement buying contractual outputs to a highly collaborative Vested agreement that could help them drive mutual value against bigger picture business outcomes.

A key to making the shift to a Vested agreement was to compare their existing performance-based contract against the Vested Five Rules/10 Elements. A detailed review showed several gaps between their performance-based agreement and the Vested 'Five Rules'. Novartis ultimately decided the best path would be a no-bid contract extension with the intent to restructure the contract to a Vested agreement. As part of the process, the parties made several significant changes in the relationship and contract, including:

- Shifting to an outcome-based business model;
- Jointly creating a formal shared vision and Statement of Intent outlining guiding principles and collaborative behaviours the parties would agree to uphold;
- Transitioning from a prescriptive 'statement of work', to a jointly defined taxonomy and workload allocation that would provide JLL with the flexibility to make changes in how work was done, enabling JLL to much more quickly implement improvement and innovation efforts;
- Shifting from traditional SLAs to outcome-based metrics;
- Restructuring the pricing approach to a flexible pricing model framework with incentives to encourage JLL to make investments to drive efficiencies and service improvements;
- Making the shift from 'oversight' to 'insight' governance, including co-creating transformation management mechanisms designed to foster transformation initiatives.

The Vested agreement went into effect 1st January, 2016 and was the first Vested agreement in the pharmaceutical industry. The Novartis–JLL journey is profiled in a case study published by the University of Tennessee.[3]

SHARED SERVICES MODEL

Organisations that struggle to meet complex business requirements with a supplier can

always invest to develop capabilities themselves (or insource). One approach is to develop an internal shared service organisation (SSO) with the goal of centralising and standardising operations that improve operational efficiencies. A shared services model is typically an internal service organisation that acts as a supplier to internal customers. Using this approach, processes are often centralised into an SSO that charges business units or users for the services they use. In some instances, SSOs are formed externally to the company (such as a subsidiary).

SSOs typically act like outsourced suppliers, performing services which 'charge' their internal customers on a per-transaction or actual cost basis. SSOs generally mirror conventional preferred provider models. The main difference is that the SSO is an internal supplier rather than an external supplier.

Organisations can use a shared services model for a variety of functional services, such as human resources (HR), finance operations or administrative services. For example, large organisations may centralise HR administration into an SSO to provide benefits management to their own employees and even external clients. Small enterprises can benefit from a shared services model by joining forces to create specialised service centres that economically provide a functional service to each of the smaller firms.

Example

Probably no other shared services organisation has been profiled or received more accolades than Procter & Gamble (P&G). In 1999, P&G executives decided to centralise non-core functions, such as finance and accounting, HR, FM and IT, into one unit: known as Global Business Services (GBS). Former CIO Filippo Passerini explained the rationale, 'In our opinion if you optimize by function, you will inevitably end up creating silos, which would carry the risk of fragmentation. By integrating all these services into one organization, we can manage them by work process rather than by function and better leverage scale and create synergies'.[4]

A key part of GBS strategy was to work with strategic outsourcing partners to deliver some of its non-core services. P&G challenged William Reeves, then the Director of Global Workplace Services, to revitalise P&G's FM operations under the GBS banner. In 2003, after a competitive bid process, P&G ultimately picked Jones Lang LaSalle as its partner. They forged ahead with what would be the largest and most strategic FM outsourcing contract at the time. The case study is profiled in *Vested: How P&G, McDonald's and Microsoft are Redefining Winning in Business Relationships*.[5]

By 2010, P&G's GBS group provided more than 170 employee and business services to 127,000 employees and 300 brands sold in 180 countries. It also had 15 strategic partners, including JLL which worked with the company on transforming its FM operations.[6]

P&G's GBS group has posted nearly $900m in cost savings since 2003.[7] But equally important is that centralising non-core services has enabled P&G's GBS group to drive agility and innovation.[8] For example, GBS played a key role in the accelerated integration of Gillette, which P&G acquired in 2005, and it has emerged as a strategic partner with the operating units of the global consumer products group by providing innovative solutions in consumer and customer interactions and in product development.[9]

P&G has won great praise for its GBS shared service organisation. Honours include winning awards from InformationWeek**,** InfoWorld, Forrester Research and the American Business 'Stevie' Awards.[10] In addition, GBS's Vested outsourcing partnership with JLL won an International Association of Outsourcing Professionals 'GEO' Award for innovation in outsourcing.[11]

EQUITY PARTNERSHIPS

Some organisations decide they do not have internal capabilities yet they do not want to invest in a shared services organisation. In these cases, organisations may opt to develop an equity partnership such as a joint venture or other legal form in an effort to acquire mission critical goods and services.

An equity partnership creates a legally binding entity. Equity partnerships take different legal forms, from buying a supplier (an acquisition), to creating a subsidiary, to equity-sharing joint ventures or entering into cooperative (co-op) arrangements. Equity partnerships are best used when an organisation does not have adequate internal capabilities and does not want to outsource.

Equity partnerships, by definition, bring costs 'in-house' and create a fixed cost burden. As a result, equity partnerships often conflict with the desires of many organisations to create more variable and flexible cost structures on their balance sheet. As Williamson notes, 'The internal organization is usually thought of as the organization of last resort'.[12] The rationale is that bringing cost structures in-house for non-core activities creates inefficient 'corporate hierarchies' that lead to inefficiencies.

One area where equity investments are often ideal in the CRE sector is for service providers, where FM is a core competency and they want to expand their capabilities as they strive to offer better services and solutions to their clients.

Example

A good example of an equity investment is the Cushman & Wakefield's 2017 acquisition of the Irving, Texas-based EnSite Solutions. EnSite was a leading provider of maintenance and repair for HVAC, generators, UPS and fire protection equipment, offering maintenance programmes for critical facilities — including data centres, telecommunications and health care facilities.

'Adding EnSite Solutions demonstrates Cushman & Wakefield's commitment to growing our Integrated Facilities Management platform' said Steve Quick, Cushman & Wakefield Chief Executive, Global Occupier Services.

'Strategically, EnSite Solutions' technology and mission critical specialists position us to better serve clients across North America with cost-effective maintenance programs for critical facilities, including data centers, telecommunications and health care', noted Colette Temmink, Executive Managing Director, Integrated Facilities Management.

'There is an immediate benefit as EnSite's platform enables our clients to access a national network of top-tier partners for HVAC, UPS, Battery, Generator and Fire Suppression services. Longer-term, their technology will allow us to create a more robust, customized service platform. This is a great fit culturally as both firms have a strong focus on outstanding client service', concluded Quick.[13]

DETERMINING THE APPROPRIATE SOURCING BUSINESS MODEL

What is the most appropriate sourcing business model? It depends.

University of Tennessee researchers have worked with participating organisations to develop a resource/toolkit designed to help buyers and sellers answer this question. The result is an open source Business Model Mapping toolkit that organisations can use to 'map' their various spend categories.[14]

For simple transactions with abundant supply and low complexity, a transactional model is likely the most efficient way to go. However, transactional models fall short for more strategic, complex sourcing initiatives often require a performance-based (managed services) or Vested sourcing business model. Shifting along the sourcing continuum to these more sophisticated models allows organisations to move from 'value exchange'

to 'value creation' because the deal architecture is designed to motivate suppliers to invest in continuous improvement, transformation and/or innovation geared to reducing cost structure or other strategic business outcomes.

No single sourcing business model is preferable over another. Most organisations should use multiple sourcing business models depending upon what they are sourcing. Organisations can also evolve, and the sourcing business model used should change as business needs and events change. An organisation might start out with an approved provider and shift along the sourcing continuum to a preferred or later even a performance-based relationship model.

All of the sourcing business models work. The key is to know when to use each model. The Business Model Mapping Toolkit serves as the guide.

A four-step business model mapping process

While a business model mapping exercise can be conducted by an individual involved in the sourcing initiative, you should consider using a 'team' approach that consists of a cross-functional group of subject matter experts and business users. Key suppliers can also provide valuable insights as they will provide an interesting perspective. The various perspectives will help you create a more accurate assessment of the appropriate sourcing business model to use.

There are four steps to determine the most appropriate sourcing business model for their situation.

Step 1: Select the defined spend category/categories you are sourcing or potentially sourcing. This includes products and or services that are currently insourced, currently outsourced or possible new products or services needed in the make or buy decision.

When most organisations consider spend categories they usually think in terms of *direct* spend or *indirect* spend (eg FM or accounting services). For example, an organisation might look at the facilities and real estate management spend and look at four spend categories: project management, FM/maintenance, real estate transactions and space and asset planning. Each spend category should be mapped separately. It is a good idea to 'bundle' the various spend categories so see if this will make a difference in thinking about the category from a more strategic perspective. For example, P&G chose to bundle its real estate and FM into one globally integrated agreement that ultimately used a Vested sourcing business model with the goal to achieve strategic desired outcomes and drive innovation.[15]

Step 2: Use the Business Model Mapping template to determine the best *relationship* model for what you are sourcing. This will help answer questions about the business environment, such as the overall level of dependency, the risk comfort zone and the strategic impact of each spend category. For example, one of the attributes to 'map' is the level of supplier integration/interface. The answers (see Figure 3) range from none to critical.

Step 3: Use the Business Model Mapping template (see Figure 4) to determine the best *economic* model for what you are sourcing. As noted, the most widely-used economic model in businesses today is a transaction-based model. The reason? They are the easiest to administer — typically the supplier is paid per activity. However, as you shift along the sourcing continuum you will want to shift to more of an output or outcome-based economic model because it gives the supplier greater degrees of freedom to provide solutions that will create value and drive innovation.

Step 4: Use the Business Model Mapping matrix to develop a consensus view of the sourcing business model that is right for a company's situation.

Attributes to Determine the Best Relationship Model	Transactional Contract		Relational Contract			Investment
	A	B	C	D	E	F
Level of supplier Integration/interface required (systems, support processes)	None	None	Medium	High	Very High	Critical

Figure 3 Business Model Mapping attributes when determining the best relationship model — potential efficiency gains

Attributes to Determine the Best Economic Model	Transaction-Based Economic Model			Output-Based	Outcome-Based	
	1	2	3	4	5	6
Potential Efficiency Gains	None	Low	Medium	High	Very High	Significant

Figure 4 Business Model Mapping attributes when determining the best economic model — potential efficiency gains

Steps 2 and 3 identify the most appropriate relationship model and economic model. In step 4, this information is applied to identify which of the seven sourcing business models is the most appropriate — the answer combines both the relationship model and the economic model.

To complete the Business Model Mapping exercise, use what we call the sourcing business model matrix. The sourcing business model matrix (see Figure 5) is a simple 3×3 matrix that has the three relationship models on the vertical axis and the three economic models on horizontal axis.

For example, if your map indicates you should use a relational contract model (column D) and an output based economic model (column 4) the matrix will indicate a performance based agreement is the most appropriate sourcing business model for your situation.

It is important to emphasise that no sourcing model is superior to another. The key is to let the Business Model Mapping process be the guide to the most appropriate model. It might be tempting to think that a performance-based or a Vested sourcing model sounds good because it motivates a supplier to invest in innovation and transformation. But if the mapping exercise indicates a preferred provider model is more appropriate for a particular situation, a company might be over-engineering their efforts.

CONCLUSION

The examples above show how each of the seven sourcing business models can add value to an organisation's CRE/FM outsourcing efforts as their needs evolve. For simple transactions with abundant supply and low complexity, a transaction-based business model is the most efficient model. But as your CRE/FM needs evolve and become more complex, it is important to understand transaction-based models fall short when any level of complexity, variability, mutual dependency or customised assets or processes come into play. For this reason, it is imperative that organisations consider the benefits

		RELATIONSHIP/CONTRACT MODEL		
		TRANSACTIONAL CONTRACT (MARKET)	RELATIONAL CONTRACT (HYBRID)	INVESTMENT (VERTICAL INTEGRATION/ HIERARCHY)
ECONOMIC MODEL	**OUTCOME-BASED Economic tied to boundary spanning/business outcomes**	Mis-match — not a viable strategy N/A	Vested (E – 5)	Equity Partnership Vested Shared Services (F – 4,5)
	OUTPUT-BASED PERFORMANCE-BASED/ MANAGED SERVICES Economics tied to supplier output	Mis-match — not a viable strategy N/A	Performance-based (managed services) agreement (D – 4)	Equity Partnership Shared Services (Performance-Based Shared Services) (F – 4)
	TRANSACTION-BASED Economics tied to activities (eg per unit, per hour)	Basic provider Approved provider (A – 1)	Preferrred provider (C – 1,2,3)	Equity Partnerships Transaction-Based Shared Services (F – 1,2,3)

Figure 5 Relationship/Contract Model

of shifting along the sourcing continuum to a performance-based or Vested model.

Unfortunately, the fundamental nature of how goods and services are procured is not keeping pace with best practices of tapping into more mature sourcing business models; many business professionals wrongly assume that a transaction-based business model is the only way to architect a supplier contract.

It is time to modernise CRE/FM partnerships. The future will be won by those who embrace more sophisticated sourcing business models designed to create value and harness the power of highly collaborative relationships with suppliers that can help drive transformation and innovation in your organisation. Start by understanding all the tools in the sourcing toolkit. This means understanding the fundamental differences of each type of sourcing business model and consciously striving to pick the right model for the right environment: ultimately picking the right tool for the right job.

Note: We will be following up this paper with a more in-depth comparison of performance-based deals and Vested agreements in the next issue.

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(15) This case study is profiled in *Vested: How P&G, McDonald's and Microsoft are Redefining Winning in Business Relationships, ibid*., note 5.