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Contracting for innovation

Presentation at Nordic IT Outsourcing & Innovation

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Who am I?

- Attorney at Lindahl law firm, focused on outsourcing and other strategic contracts
- Faculty member at University of Tennessee, where I teach Collaborative Contracting
- Certified Deal Architect in the Vested model
- Author to the book: *What's In it For We – Inköp, outsourcing och strategiska partnerskap med Vested*
- Co- author to the book *Getting to We – Negotiating Agreements for Highly Collaborative Relationships*

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DAVID FRYDLINGER
What's In It For We?
INKÖP, OUTSOURCING OCH STRATEGISKA PARTNERSKAP MED
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Liber
Jobba smartare med
!KARRIÄREN


GETTING TO
WE
Negotiating Agreements for Highly Collaborative Relationships
JEANETTE NYDEN, KATE VITASEK, AND DAVID FRYDLINGER

How to avoid innovation

A real outsourcing deal

- Services within scope
  - Infrastructure
  - Desktops
  - Application maintenance
  - Helpdesk
- Transaction based business model
  - The supplier is paid per transaction, i.e. per server, per hour, per help desk ticket etc

Quote from the contract

”The Supplier underakes, when performing the Services, to carry out standardisations, consolidations and virtualisations of the Customer’s IT environment. The Supplier further undertakes to follow the technical development and to proactively and continouosly suggest to the Customer actions to improve and optimimize the Customer’s IT environment.”

Quote from the contract

”The Parties agree that, if the supplier, in additions to its other undertakings under the Agreement, on its own initiative, at its own cost and without involvment from the Customer, implement changes that the Parties agree decreases the Customer’s IT costs – for example by optimizing, consolidating or improving the efficiency of the Customer’s systems, applications, process etc, - the Supplier shall be rewarded by an amount corresponding to half of the Customer’s savings during the first 12 months after the cost decreased has entered into force.”

Will the customer get any innovation?

Why not?

- Low incentives for the supplier – the customer will not sue the supplier if the clause is not complied with.
- The supplier will not want to reduce its own margins.
- Innovation is a collaborative process that must involves both parties.

Five critical success factors for innovation

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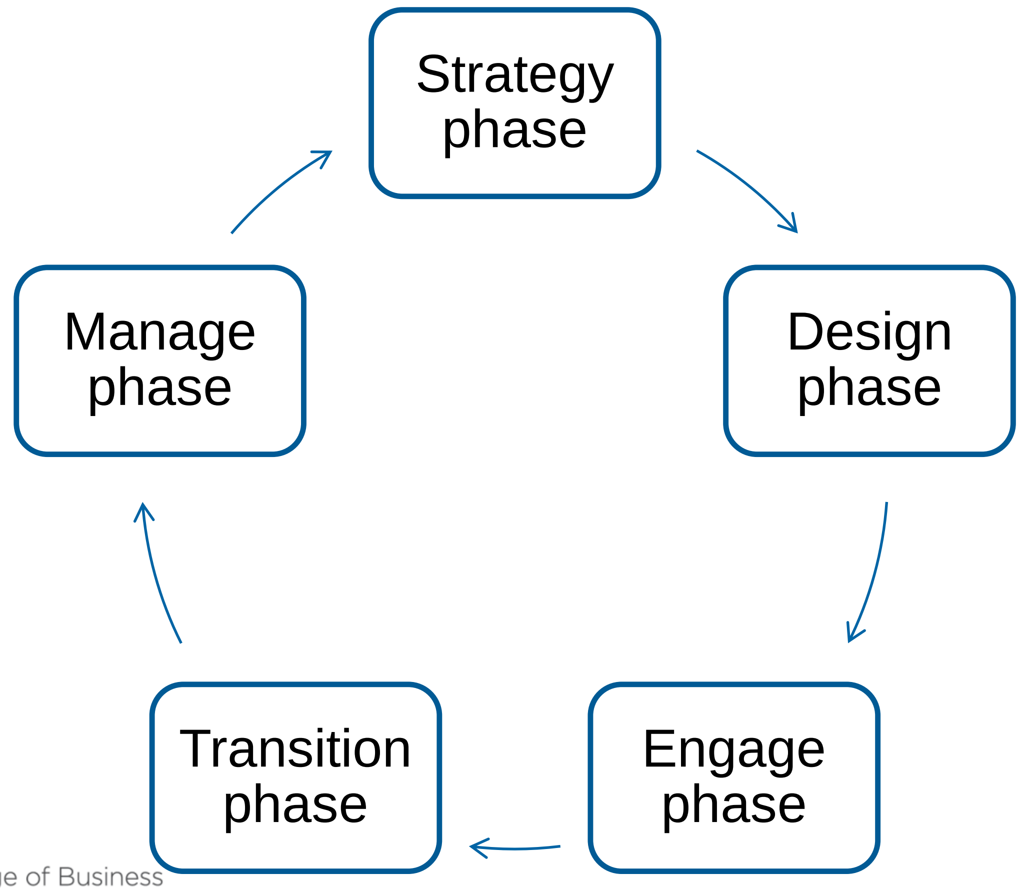
Five critical success factors

1. Implement innovation in the entire sourcing cycle
2. Establish and communicate clear and measurable goals and objectives
3. Enter into a collaborative contract
4. Create supplier incentives for innovation
5. Create a governance model for innovation

1. Implement innovation in the entire sourcing cycle



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Implement innovation in the entire sourcing cycle

- Innovation must not be treated as a nice add-on
- Innovation must be made an integrated part of the sourcing cycle from the beginning:
  - What are the goals and objectives of the deal?
  - Design pricing models for innovation
  - Evaluate suppliers based in innovation capabilities
  - Establish governance processes for innovation during transition phase
  - Follow the innovation processes during the entire contract period

2. Establish and communicate clear and measurable goals and objectives

- Innovation does not exist for its own sake but for achieving valuable goals
  - Increased revenues and decreased costs
- The goals and objectives of the deal must tie into the corporate strategy of the customer

Connection between contract and strategy

Corporate strategy

- Vision/mission
- Goals
- Markets
- Who are our customers?
- What products/services do we provide
- And so on

Business unit strategy

- What business goals must we support?
- What services do we need to provide to support the strategy?
- Who are our external and internal customers
- Business unit organization and governance model

Supplier/contract strategy

- What goals and objectives must the supplier/contract support?
- How shall we measure goal achievement?
- How shall the supplier be compensated?

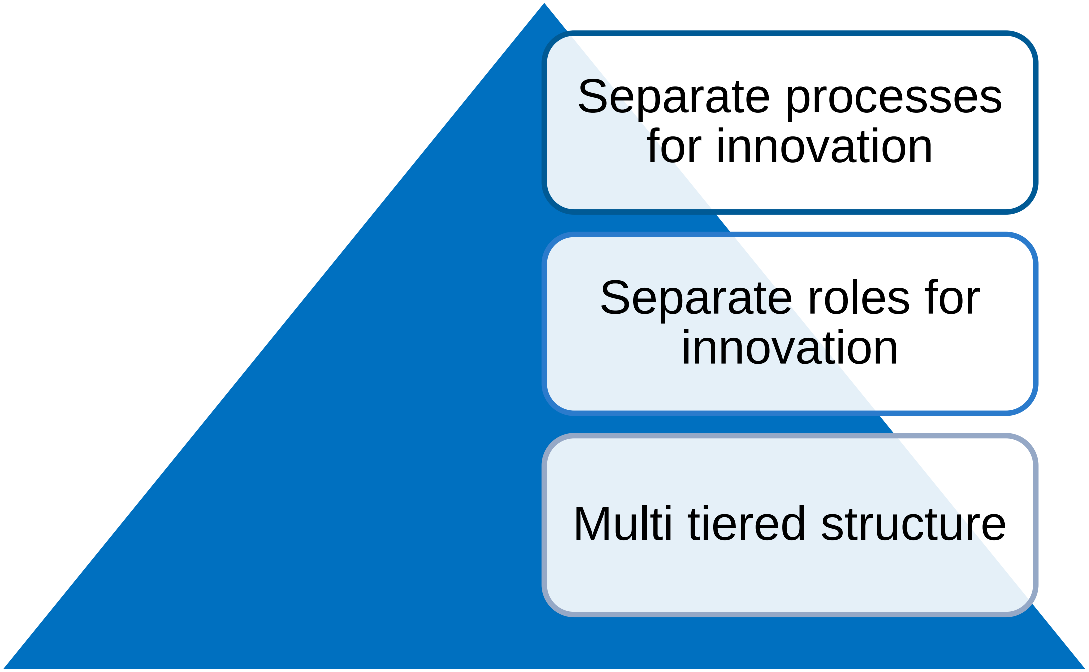
3. Enter into a collaborative contract

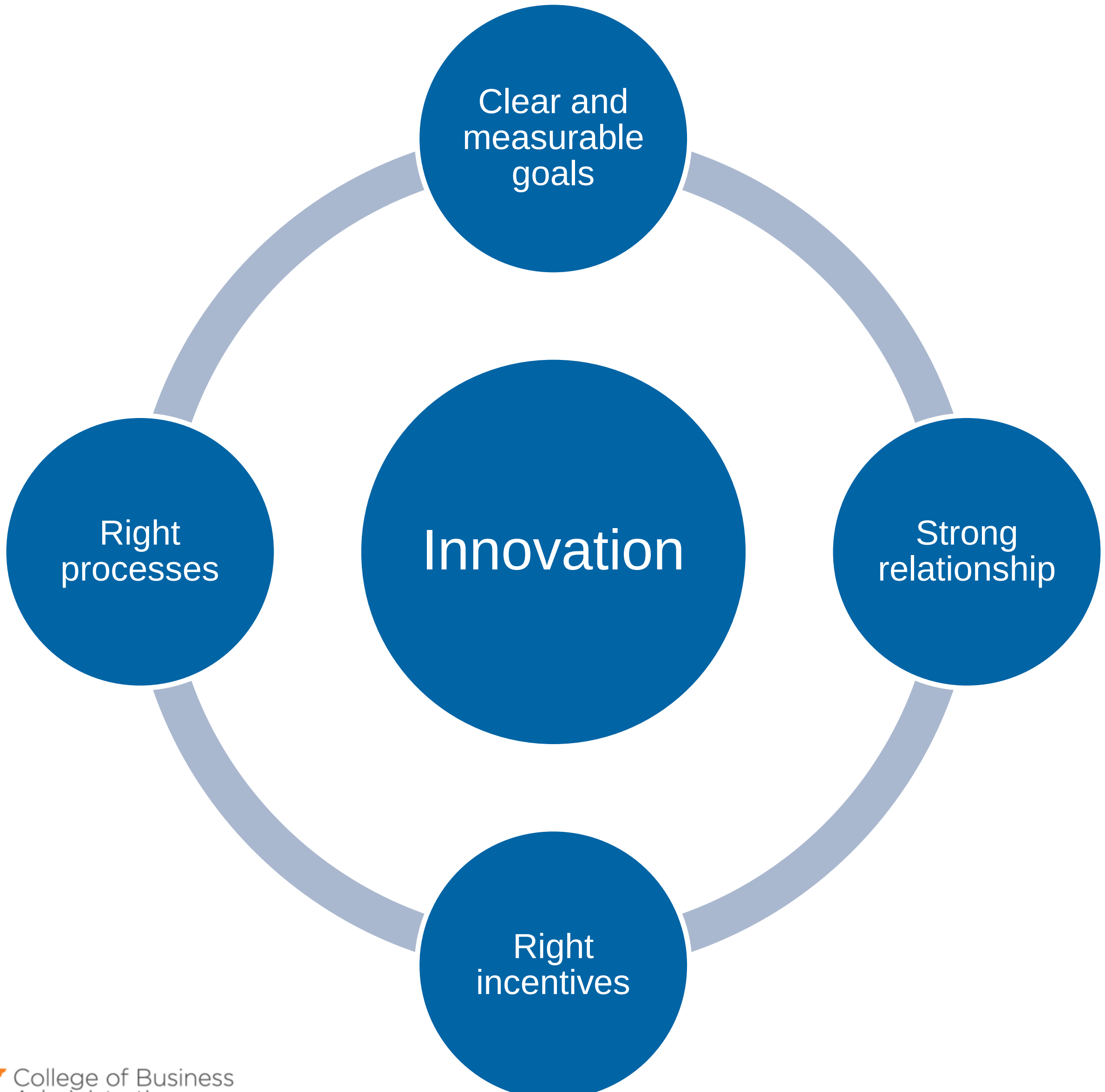
- A written contract where a continuously efficient relationship is prioritized before the negotiated deal

4. Create supplier incentives for innovation

- Outcome based economic model
- The supplier’s margin must be tied to valuable results achieved through innovation
- Example
  - Full compensation only if certain yearly improvements are fulfilled
  - The supplier and customer shares the gains from savings programs

5. Create a governance model for innovation





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