

BUSINESS MODEL MANAGEMENT CONSIDERATIONS

Sourcing Considerations Checklist: Basic Provider Model

Consideration	Attributes
Link to Business Objective	No action—sourcing solution support primary business objectives limited to expense control or nonexistent
Requirements Analysis	Limited to no action—requisition(s) details requirements
External Market Analysis	Search for suppliers by scanning online sources, catalogs, or other supplier directories, such as diversity publications, and spot market testing through competitive bidding
Cost Analysis	Focus on administration cost only, seeking ease of order to pay (i.e., purchasing cards, pre-identified catalogs, or preset electronic-auction events)
Supply Market Assessment	No action— multiple suppliers are available and can be easily changed
Category Portfolio Segmentation	Validate portfolio segmentation—indicates requirement is best managed with a basic provider business model Category management is achieved through competitive bidding for lowest price supported by a purchase order
Total Cost of Ownership Approach	No action—TCO calculations are not used, and price is the only cost consideration because of low value impact unless delivery or inventory is a significant expense
Risk Assessment	No action—risk is minimum due to market standards, supplier must meet corporate/compliance policies and standards or buyer will chose alternative supplier
Value Assessment and Balance	Buyer focus—lowest price Supplier focus—Receiving the order and predictable payments
RFx Solicitation / Bid Management	Yearly solicitation cycle is typical; however, can be perpetual based on industry <i>Spot buys</i> as frequently as daily Solicitation purpose is to seek best <i>market price</i> Buyer manages bid and supplier selection with no stakeholder input Use <i>request for price</i> Typically 1–2 weeks to select supplier but could be same day
Supplier Selection Drivers	Supplier selection driven by lowest price standard items or services and administrative ease of ordering/managing
Risk Management	No action—category does not require active risk management due to low value and is mitigated by switching suppliers
Contract Approach	Use <i>procurement card</i> or <i>purchase order (PO)</i> to buy standard market offerings May use <i>blanket POs</i> if plan on repeat buys from supplier
Pricing Model	Use price based on a <i>transactional economic model</i> (e.g., price per unit, per call, per hour) Select the lowest <i>competitive bid</i>
Category Management Governance	No action—the purchase order provides the administrative and governing approach Buyer manages all aspects of category governance
Supplier Relationship Management	No specified SRM plan—“market” governs the relationship; suppliers interchangeable based on lowest price Buyer owns supplier relationship; any interactions are short term, ad hoc, and reactive based on solving a problem or addressing issues
Performance Management	Utilize a three-way match accounting process to PO (quantity, price and damage free)
Continuous Improvement / Transformation / Innovation	Identify ways to improve administration or category standards where possible
Compliance & Special Concerns	Survey supplier to verify compliance with government driven compliance requirements
Exit Management	No exit strategy required



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Sourcing Considerations Checklist: Approved Provider Model

Consideration	Attributes
Link to Business Objective	Apply some effort in purchase solution to support business objectives such as growth, cost reductions, or unique specifications Supplier approval and down-selection criteria reflect corporate objectives
Requirements Analysis	Complete review of historical sourcing solution and forecasted changes in use and demand Review supplier down-selection criteria and supplier past performance Define workscope —workscope focuses on WHO and/or HOW
External Market Analysis	Complete some work effort to understand the supply and demand influences of the market Assess suppliers to identify any opportunities presented by current market conditions
Cost Analysis	Complete base product or service cost bar focused on hard costs to include buyer costs (typically does not include visibility of supplier's costs) Identify cost drivers that affect product or service choice. Estimate supplier's ability to affect buyers and sellers' costs Develop cost management plan based on cost bar analysis, information from market queries, and inputs from internal stakeholders
Supply Market Assessment	Complete supplier prequalification process and down-selection using criteria that include a strong focus on supplier's financial stability Determine the best size of the supplier, small or large, to support delivery of the requirement Down-select suppliers from the broad base of supplier options in the market; typically, there are several approved suppliers to support a single requirement Investigate supplier's current business state based on its ability to manage market influences and other factors, such as size, geographic advantage
Category Portfolio Segmentation	Validate portfolio segmentation—indicates requirement is best managed through an approved provider business model
Total Cost of Ownership Approach	Do not complete a TCO for generic items where you are just leveraging your volume Do complete a TCO if the category value is high, has unique specifications, or products or services have special conditions or considerations
Risk Assessment	Conduct risk assessment as part of supplier qualification process (Some risk is mitigated through supplier prequalification) Complete risk assessment plan for more critical items, to factor in capacity and supply management processes and any unique requirements that are imposed beyond standard product or service offerings
Value Assessment and Balance	Buyer focus—recurring commodities at fair or lowest price Supplier focus—increased volumes and client reference
RFx Solicitation / Bid Management	1–2 year solicitation cycle Solicitation purpose is to seek best market price often with unique quality or specification requirements Buyer manages bid and supplier selection with some input by stakeholders Request for price is used 3–4 weeks to select supplier
Supplier Selection Drivers	Supplier selection driven by combination of prequalified capabilities, price, and the ability to meet unique requirements (business or specifications)
Risk Management	Manage risk primarily by switching suppliers (multiple preapproved suppliers) Use supplier preapproval process to verify supplier's ability to meet requirements including basic compliance directives Identify alternate supply sources as backup plan
Contract Approach	Use standard master agreement contract Use blanket POs for ease of reordering Include defined workscope (workscope focuses on WHO and/or HOW) 1–2 year contract duration
Pricing Model	Use price based on a transactional economic model Typically fixed price per transaction (per unit, per call, per hour) Negotiate a rate card Negotiate volume discounts/rebates by bundling workscope/consolidating volumes



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Category Management Governance	<p>Manage governance through periodic supplier meetings with some business stakeholder involvement</p> <p>Changeover of preapproved suppliers driven by competitive solicitations</p> <p>Include additional governance requirements as additions to standard contracts</p> <p>Resource requirements: Buyer with periodic business stakeholder consult and qualification support\</p>
Supplier Relationship Management	<p>Buyer owns supplier relationship once the prequalification process is complete</p> <p>Supplier meetings are held periodically to include early warnings on shifting performance trends</p>
Performance Management	<p>Utilize a three-way match accounting process to PO (quantity, price and damage free) with expanded quality/performance criteria based on business requirements</p> <p>Some oversight of performance and pricing</p>
Continuous Improvement / Transformation / Innovation	<p>Capture and assess improvement opportunities through periodic supplier interfaces and feedback from stakeholders</p>
Compliance & Special Concerns	<p>May require corporate compliance validation to become a supplier</p> <p>Develop and use surveys and periodic audits to verify supplier compliance with government and company-driven requirements</p>
Exit Management	<p>Terminate for convenience and cause</p> <p>Develop a formal plan for supplier change-out that includes an assessment of impact on business operations with supplier replacement</p>



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Sourcing Considerations Checklist: Preferred Provider Model

Consideration	Attributes
Link to Business Objective	Define solution to support specific business objectives Supplier down-selection based on proven track record of performance and ability to meet business objectives
Requirements Analysis	Complete review of historical sourcing solution and forecasted changes in use and demand Interface with buyer's business stakeholders to detail requirement objectives Define workscope to focus on WHO and/or HOW; begin to jointly define HOW with trusted suppliers
External Market Analysis	Complete industry market analysis yearly at a minimum to ensure understanding of opportunities and threats Benchmark suppliers impact by market behaviors and influences Benchmark best practices in the market to identify potential value offerings that could be applied in the final sourcing solution
Cost Analysis	Complete base product or service cost bar focused on hard costs to include both internal costs and supplier's costs Identify cost drivers that affect product or service choice Develop a target cost model with estimated adjustments in cost drivers (based on market pricing queries) to present to the potential suppliers for comment on how suppliers' target cost differs Develop cost management plan based on cost bar analysis, information from market queries, and inputs from internal stakeholders May solicit inputs from suppliers
Supply Market Assessment	Investigate supplier's current business state and position in the market based on its ability to manage market influences and other factors, such as size, geographic advantage, value-added capabilities, etc. Determine the best size of supplier, small or large, to support delivery of the requirement Complete supplier prequalification and down-selection using criteria that include a strong focus on supplier's financial stability and ability to meet compliance requirements Identify suppliers with differentiated capabilities to provide value-added services
Category Portfolio Segmentation	Validate portfolio segmentation—indicates requirement is best managed through a preferred provider business model Formal category management plan may be developed with input from key stakeholders and will include methods for evaluating additional value benefits to be achieved through a preferred provider model
Total Cost of Ownership Approach	Complete TCO model to validate supplier value-added pricing against current costs Prepare plan to monitor net landed or net delivered price and operational costs to measure improvements in TCO
Risk Assessment	Conduct risk assessment as part of supplier qualification process (some risk is mitigated through supplier prequalification) Complete formal risk assessment with internal stakeholder involvement (may include supplier input)
Value Assessment and Balance	What's-in-it-for-we mindset seeking fair and balanced exchange Buyer focus—increase value beyond price and delivery to include quality, efficiency, capacity management with specific link to buying company objectives, volume discounts/rebates Supplier focus—increase contract duration, client reference, preferred status, revenue growth opportunities to gain larger share of buyer's spend
RFx Solicitation / Bid Management	2–3 year solicitation cycle Solicitation purpose is to seek value-added capabilities at best value Utilize cross-functional business stakeholder involvement in bid management and development of supplier selection criteria Execute periodic request for information to solicit benchmark information or specific supplier information in advance of preparation of formal bid or proposal solicitation request to gain insights on best practices in the market Use request for proposal for solicitation with possible inclusions of requested information on cost, pricing models, and examples of successful improvements with other customers 4–8 weeks to select the supplier
Supplier Selection Drivers	Complete best value evaluation (combinations of price, value-added supplier offerings, geographic benefit, differentiated market position, technology, and prequalified capabilities) as well as identified unique differentiators or value benefit Review supplier past performance Verify supplier acceptance of standard contract terms and conditions



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Risk Management	<p>Document risk management expectations from the supplier (i.e., a documented requirement for the supplier to produce a risk management and mitigation plan)</p> <p>Identify alternate suppliers, review differences in value offerings between suppliers, and determine potential impact on costs to change suppliers</p> <p>Prepare a supplier change contingency plan should there be a need to change suppliers</p> <p>Supplier qualification process includes risk management capability and ability to meet specific compliance requirements</p>
Contract Approach	<p>Use a relational contract approach based on standard master agreement contract for legal terms and conditions with standardized statement of work template for future business requirements Incorporate what's-in-it-for-we mindset with mutually agreed statement of intent Use blanket purchase orders (POs) for ease of reordering</p> <p>Includes defined workscope to focus on WHO and/or HOW; begin to jointly define HOW with trusted suppliers</p> <p>Contract duration 2–3 years</p>
Pricing Model	<p>Use price based on a transactional economic model</p> <p>Typically fixed price per transaction (per unit, per call, per hour)</p> <p>Negotiate a rate card with volume discounts/rebates by bundling workscope/consolidating volumes</p> <p>May use an open book compensation model but typically there is limited use due to higher administrative burden</p> <p>Establish price adjustment targets using a total cost of ownership model as basis for costs</p>
Category Management Governance	<p>Include appropriately scaled governance mechanisms for contract compliance, financial management, managing issues and risks, performance management, and relationship management between internal stakeholders</p> <p>Buyer facilitates governance with key internal stakeholders throughout the sourcing cycle</p> <p>Develop a plan for formal minimum quarterly business reviews with a pre-established agenda for: strategy and relationships review, service review, commercial review, financial review, security and compliance review, quality and risk review, and change control committee</p>
Supplier Relationship Management	<p>Buyer typically “owns” supplier relationship management with business stakeholder involvement</p> <p>Appropriately scaled SRM framework, including mechanisms for buyer–supplier interface, formal escalation management, and change management/commercial management</p> <p>Identify and document planned opportunities for additional periodic supplier interaction at various levels of buyer and supplier organizations to review supplier expanded value contribution to buyer’s business</p>
Performance Management	<p>Develop activity-based service-level agreements</p> <p>Develop a formalized cost target tracking process</p> <p>Develop and use a formal operational scorecard</p> <p>Create customer satisfaction surveys and develop a management plan</p>
Continuous Improvement / Transformation / Innovation	<p>Develop a plan to capture and assess improvement opportunities through supplier reviews</p> <p>Include a contracted requirement for the supplier to proactively identify and implement continuous improvement efforts</p>
Compliance & Special Concerns	<p>Create an audit plan to verify supplier compliance with government and company-driven requirements</p>
Exit Management	<p>Terminate for convenience and cause</p> <p>Develop an exit management plan with longer duration allowance to reduce business interruption because the supplier typically is integrated into the business operation</p>



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Sourcing Considerations Checklist: Performance Based Model

Consideration	Attributes
Link to Business Objective	<p>Define solution to support specific business objectives with active inclusion of business stakeholders</p> <p>Develop measurable targets with business stakeholders that align to business objectives</p> <p>Document a clear description of the business objective(s) for eventual provision to supplier</p>
Requirements Analysis	<p>Complete review of historical sourcing solution with business stakeholder involvement</p> <p>Complete current state assessment of the requirement to establish baseline performance target against which the supplier's future performance guarantees will be compared and measured.</p> <p>Define workscope; workscope focuses on the WHAT and limited HOW of workscope; supplier develops HOW using a Performance Work Statement</p>
External Market Analysis	<p>Complete formal market analysis to investigate market behaviors, trends and influences on the category requirement</p> <p>Benchmark best practices to provide basis for evaluating current practices and identifying possible improvements to build into requirements</p>
Cost Analysis	<p>Develop cost model with hard and soft cost elements included</p> <p>Identify cost drivers and prioritize improvement targets with business stakeholders</p> <p>Develop cost management plan with supplier involvement</p> <p>Establish performance targets for specified cost drivers reduction and year over year price reduction</p> <p>Develop cost baseline with buyer business and supplier business stakeholders that will serve as the foundation for savings glidepath to validate year over year cost reductions</p>
Supply Market Assessment	<p>Complete supply market research to identify suppliers which lead in the category and have sound financials that allow them to assume higher levels of risk</p> <p>Determine the stability of the supplier(s) position in the market based on their ability to manage market influences and other factors such as size, geographic advantages, and assess whether they are candidates for acquisition or divestiture for the term of the support needed</p> <p>Determine the best size of the supplier, small or large, to support delivery of the requirement</p> <p>Complete supplier pre-qualification and down-selection using criteria that has a strong focus on financial stability, supplier(s) strength in the industry, as well as other category requirement-specific support criteria developed by business stakeholders</p> <p>Develop a supply base strategy based on intelligence collected to assure continuous support, strong performance and process stability and improvement</p>
Category Portfolio Segmentation	<p>Validate Portfolio Segmentation- indicates requirement is best managed with a Performance Based Model</p> <p>Develop a Formal Category Management Plan with input from business stakeholders establishing goals, objectives and performance targets</p>
Total Cost of Ownership Approach	<p>Complete TCO model to validate supplier value against current costs</p> <p>Identify factors in addition to price, such as systems capabilities, full-time resources assignments, training provisions or work design efficiencies, that might be applied by a supplier based on the situation and complexity of the requirement that may be incremental to current TCO</p> <p>Prepare plan to monitor net landed or net delivered price and operational costs to measure improvements in total cost of ownership</p>
Risk Assessment	<p>Conduct full risk assessment due to higher dependency on fewer suppliers</p> <p>Draft contract clauses to transfer appropriate level of risk management to suppliers, requiring supplier contingency plans where applicable to the category requirement being provided</p> <p>Complete formal risk assessment and risk mitigation plan with involvement of business stakeholders. Solicit input from suppliers.</p> <p>Formal transition plan for any transfer of workscope</p>
Value Assessment and Balance	<p>What's-in-it-for we mindset seeking fair and balanced exchange</p> <p>Buyer focus: replacement of non-core competencies to lower cost, drive performance improvements and gain additional support for other business objectives such as market growth and/or new product introduction</p> <p>Supplier focus: increase contract duration, opportunity for increased profit with incentives if meet performance targets, revenue growth, reference client, cooperation for improvement</p>
RFx Solicitation / Bid Management	<p>3-5 years solicitation cycle</p> <p>Solicitation purpose is to seek cost management and year over year cost reductions at a competitive price/value</p>



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	<p>Create a cross functional team to represent all business stakeholders and users with responsibility to create a supplier down-selection criteria; down-select criteria should be weighted and include quantitative and qualitative criteria including cultural fit</p> <p>Participate in proposal review and negotiations preparation and planning</p> <p>Periodically use a Request for Information (RFI) to gain benchmark information that may be applicable. RFI's are also used to test market pricing throughout the period of the selected supplier performance period to track valid pricing trends</p> <p>Prepare a Request for Solution (RFS) focused on specific supplier provided benefits such as cost reductions, quality improvements, technology improvements and service scope expansion potential</p> <p>2-4 months to select the supplier</p>
Supplier Selection Drivers	<p>Complete best value evaluation with benchmarked supplier leaders possessing core competency to uniquely support delivery of the requirements and provide cost efficiency</p> <p>Evaluate suppliers against TCO model to identify the best value supplier approach</p> <p>Evaluate the ability of the supplier to manage cost and manage or mitigate risks</p> <p>Down-select supplier based on proven track record of performance and capability to meet business objectives</p> <p>Complete best value analysis reviewing other factors in addition to price such as systems capabilities, full-time resource application, a geographical capability, training or other work design efficiencies</p>
Risk Management	<p>Document risk management expectations from the supplier, i.e., a documented requirement for the supplier to produce a risk management and mitigation plan</p> <p>Develop performance metrics to track risk</p> <p>Document specific risk penalties, i.e., monetary or termination with exit transition obligations</p> <p>Prepare a formal risk management contingency plan</p> <p>Supplier qualification process includes risk management capability and ability to meet specific compliance requirements</p> <p>Jointly develop formal workscope transition plan</p>
Contract Approach	<p>Use a relational contract approach designed to be a flexible framework</p> <p>Modify buyer master agreement to develop contract language inclusions for supplier management of risk and costs</p> <p>Incorporate what's-in-it-for-we" mindset with mutually agreed Statement of Intent</p> <p>Include defined workscope; workscope focuses on WHAT, with limited focus on HOW; supplier develop Performance-Work Statement outlining the HOW</p> <p>Contract duration commensurate with supplier's investment, typically with a 3-5 year base using options to extend one year at a time</p>
Pricing Model	<p>Use Output-based economic model</p> <p>Use price with incentive and/or penalties tied to supplier's performance against performance guarantees</p> <p>Typically fixed price, but can be cost reimbursement</p> <p>Pricing typically split into a base fee (often transactional in nature) and management fee with incentives</p> <p>Define expected pre-agreed savings glide path</p> <p>Define incentives and/or penalties tied to performance</p> <p>Define gainsharing for performance above meeting requirements as appropriate if allowed by company policies</p>
Category Management Governance	<p>Include appropriately scaled governance formally documented in contract</p> <p>Incorporate mechanisms for contract compliance, financial management, managing issues and risks, performance management, and relationship management between internal stakeholders</p> <p>Business facilitates governance with cross-functional team; buyer plays support role. Appropriately scaled resources support various governance mechanisms with goal to have a high degree of business continuity over the sourcing cycle</p> <p>Develop a plan for formal governance review meetings with a pre-established agenda for: strategy and relationships review, service review, commercial review, financial review, security and compliance review, quality and risk review, change control committee</p>



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<p>Supplier Relationship Management</p>	<p>“Business” typically owns the supplier relationship with key stakeholder responsibilities coordinated by the buyer Appropriately scaled SRM framework, including defining and documenting the following mechanisms into the actual contract Change management/commercial management “2 in a Box” buyer-supplier interface structure Formal escalation process Formal continuity of resource plan to assure consistent relationship interface (including <i>key man provisions</i> as appropriate) Clear and separate roles for relationship management, operation management, commercial/contract management (for managing scope changes) Identify and document planned opportunities for additional periodic supplier interaction at various levels of buyer and supplier organizations to review supplier expanded value contribution to business objectives</p>
<p>Performance Management</p>	<p>Develop output-based service level agreements (process focused not transaction focused) linked to key business objectives. Jointly develop a balanced scorecard approach to monitor the service level agreed to, include customer level metrics. Metrics are clearly defined and have formal written definitions and calculations. Annual review of KPI’s, targets and calculations, contract allows periodic update of metrics by the operations team. KPI’s are tracked primarily by the supplier and reviewed by both parties Formal tracking of KPI’s tied to performance incentives/penalties.</p>
<p>Continuous Improvement / Transformation / Innovation</p>	<p>Include contractual clause for supplier performance guarantees for continuous cost improvements</p>
<p>Compliance & Special Concerns</p>	<p>Create an audit plan to verify supplier compliance with government and company-driven requirements</p>
<p>Exit Management</p>	<p>Termination for performance failures Significant impact with supplier exit; develop a formal Exit Management Plan addressing: Budget for transition costs and resource allocation Mutually agree on transition duration for supplier removal and replacement Fair division of intellectual property rights Fair allocation of assets and investments Business continuity for stakeholders Contract satisfaction and completion Record of lessons learned</p>



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Sourcing Considerations Checklist: Vested Model

Consideration	Attributes
Link to Business Objective	Brief down-selected supplier(s) on overall business strategies Develop measurable targets that align to business objectives jointly with business stakeholders and supplier
Requirements Analysis	Complete review of historical sourcing solution Complete current state assessment with business stakeholders to serve as the baseline against which future performance will be measured Develop desired outcomes and complete the requirements roadmap directly aligned to business objectives with joint team of buyer business stakeholders and supplier representatives Determine and document objectives with joint team of business and supplier stakeholders to drive work effort to meet the desired outcomes Determine workscope/workload allocation through a process of evaluation with joint team of business and supplier stakeholders workscope as part of the requirements Define workscope to focus on WHAT, not the HOW; supplier develops performance work statement
External Market Analysis	Complete market analysis to identify potential Vested partners Conduct ongoing market analysis with joint team of buyer business and supplier stakeholders to ensure understanding of current trends and potential opportunities for improvement
Cost Analysis	Develop a cost model with both hard and soft costs with business and supplier stakeholders to serve as the basis against which improvements are made and measured Develop a protocol for reviewing supplier-provided open book costing with focus on reducing overall cost structure (not just the supplier's price) Develop a cost management plan to include considerations of efficiency and productivity and on understanding value of potential innovations and transformation with involvement of both parties
Supply Market Assessment	Identify suppliers through market research with focus on those suppliers that provide demonstrative evidence and record of innovation, transformation, and collaboration Investigate suppliers' current business state and position in the market based on their ability to manage market influences and other factors, such as size, geographic advantage, etc. Determine the best size of the supplier, small to large, to support delivery of the requirement Complete a review of the suppliers' ability to invest in their business to improve productivity and efficiency and drive excellence in management of the category
Category Portfolio Segmentation	Validate portfolio segmentation—indicates product or service provided is best managed by a Vested business model Develop a formal category management plan with key internal stakeholders with defined supply solution guardrails
Total Cost of Ownership Approach	Develop a TCO model with joint buyer/supplier team members Prepare a TCO monitoring plan with a defined cadence and a refresh time frame with joint buyer/supplier team members
Risk Assessment	Comprehensive formal risk assessment completed by both business and supplier stakeholders
Value Assessment and Balance	Define what's-in-it-for-we mindset seeking true win-win/value creation Conduct value allocation evaluation and best value analysis to ensure balance between the two parties with joint buyer/supplier team members Define process with joint buyer/supplier team members for measuring and allocating value generation after total cost management and predefined objectives are achieved
RFx Solicitation / Bid Management	5–7 year solicitation cycle Solicitation purpose is to seek differentiated value add with a competitive pricing model Buyer utilizes cross-functional business stakeholder involvement in bid management and development/priority weighting of supplier selection criteria Periodic use of request for information to solicit benchmark information in advance of preparation of a formal proposal request to gain insights on best practices in the market Prepare a request for proposed solution or request for partner, which may include requested information on cost, pricing models, and examples of successful improvements with other customers 2- 4 months to select the supplier
Supplier Selection Drivers	5–7 year solicitation cycle



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	<p>Solicitation purpose is to seek differentiated value add with a competitive pricing model</p> <p>Buyer utilizes cross-functional business stakeholder involvement in bid management and development/priority weighting of supplier selection criteria</p> <p>Periodic use of request for information to solicit benchmark information in advance of preparation of a formal proposal request to gain insights on best practices in the market</p> <p>Prepare a request for proposed solution or request for partner, which may include requested information on cost, pricing models, and examples of successful improvements with other customers</p> <p>4–8 weeks to select the supplier</p> <p>Evaluate historical supplier performance, benchmarked supplier innovation and transformation experience, and track record of success in the key areas of capability required for successful delivery of the category requirement</p> <p>Determine the alignment of business objectives between buyer and supplier</p> <p>Assess the supplier’s ability to successfully manage the influences in and impact of the market</p> <p>Conduct Compatibility and Trust Survey to assess alignment between both parties for ease of relationship interface and management</p>
Risk Management	<p>Buyer and supplier jointly define and document shared risk and shared reward clause for inclusion in the contract</p> <p>Buyer and supplier jointly develop formal risk analysis, management and mitigation plan with defined tracking and measurement process</p> <p>Buyer and supplier jointly develop formal <i>onboarding</i> and off-ramp process to ensure knowledge transfer, process continuity, and compliance requirements are met</p>
Contract Approach	<p>Highly collaborative relational contract approach designed to be a flexible framework; statement of intent formally embedded into contract</p> <p>Buyer and supply jointly develop master agreement for terms and conditions and explicit guardrails</p> <p>Incorporate What’s in it for We mindset with mutually agreed statement of intent</p> <p>Include defined workscope—workscope focuses on “WHAT,” not the “HOW”; supplier develops performance work statement</p> <p>Contract structure includes all 10 Vested elements, including a comprehensive change management process defined in the contract schedule</p> <p>Contract duration typically 5–7 years with a minimum of 3 years with an option to extend contract 1 year at a time up to 10+ years</p> <p>Consider using evergreen provision to extend contract based on supplier’s ability to create value against strategic desired outcomes</p>
Pricing Model	<p>Pricing model with incentives to optimize for business outcomes and motivate supplier to invest in innovation</p> <p>Supplier fee at risk with incentives for achieving and/or exceeding requirements and outcomes</p> <p>Open book cost management where supplier provides all cost visibility</p> <p>Clearly identified financial guardrails for both buyer and supplier</p> <p>Margin matching mechanisms designed to keep buyer and supplier in financial balance</p> <p>Win together, lose together</p>
Category Management Governance	<p>Include appropriately scaled governance formally documented in contract</p> <p>Incorporate governance mechanisms for contract compliance, financial management/budgeting</p> <p>Decision protocol with issue escalation and resolution parameters</p> <ul style="list-style-type: none"> Performance management Relationship management between internal stakeholders (typically three-tier structure with assigned budget and three levels of one-to-one interface for operating team; core relationship management team; executive team) <p>Business facilitates governance with cross-functional team; buyer plays support role</p> <p>Appropriately scaled resources support various governance mechanisms with goal of having a high degree of business continuity over the sourcing cycle</p> <p>Larger or complex outsourced services have a formal workscope transition and change management teams</p> <p>Develop a plan for formal governance review meetings with a pre-established agenda for: strategy and relationships review, service review, commercial review, financial review, security and compliance review, quality and risk review, transformation review, and management process</p> <p>Formal communication process, supported by planned cadence to ensure timeliness of interfaces</p>
Supplier Relationship Management	<p>Identify and document planned opportunities for additional periodic supplier interaction at various levels of buyer and supplier organizations to review supplier performance</p> <p>Buyer and supplier “business” own the relationship</p>



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	<p>Appropriately scaled SRM framework, including defining and documenting the following mechanisms in the actual contract:</p> <ul style="list-style-type: none"> Change management/commercial management Two-in-a-box buyer-supplier interface structure Formal escalation process Formal decision-making process/rights clearly assigned Formal continuity of resource plan to ensure consistent relationship interface (including <i>key man provisions</i> as appropriate) Dedicated resource(s) focused on relationship management Three-tier structure mirrors overall category management governance with clear and separate roles for relationship management, operation management, commercial/contract management, and transformation/innovation management Formal communications protocol and plan Formal continuity of resource plan including key man provisions for both buyer and supplier Joint relationship management scorecard is defined and used to monitor relationship effectiveness Yearly Compatibility and Trust Assessments used to monitor potential gaps in the relationship
Performance Management	<p>Focus on outcome-based strategic business objectives/desired outcomes</p> <ul style="list-style-type: none"> Balanced business scorecard jointly managed including operational, relational, and transformational key performance indicators (KPIs) KPI's are perpetually tracked by both parties Formal total cost of ownership tracking
Continuous Improvement / Transformation / Innovation	<p>Formal transformation/innovation management framework</p> <ul style="list-style-type: none"> Defined processes and protocols for driving overall transformation initiatives through a jointly managed continuous innovation management process Defined processes and protocols for driving day-to-day continuous improvement efforts or business problems that arise Formal process documented for updating and managing any changes to the actual contract/pricing model as part of governance
Compliance & Special Concerns	<p>Compliance with government and jointly developed requirements and practices perpetually monitored</p>
Exit Management	<p>Termination criteria co-developed by buyer and supplier</p> <p>Significant impact with supplier exit; develop a formal exit management plan addressing:</p> <ul style="list-style-type: none"> Budget for transition costs and resource allocation Mutually agreed-on transition duration and pre-identified resource allocations estimates for off-ramp activity Fair division of intellectual property rights Fair allocation of assets and investments Business continuity for stakeholders Contract satisfaction and completion Record of lessons learned



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Sourcing Considerations Checklist: Shared Services Model

Consideration	Attributes
Link to Business Objective	Design or select the shared services organization (SSO) to drive cost efficiencies that support business/user groups Provide economic model descriptions (transactional, output, or outcome) to serve as a guide for the SSO to determine the appropriate link to business objectives based on the economic model used for a specific requirement
Requirements Analysis	Conduct a review, document the historical solution, and define forecasted changes in use and demand as part of the requirement definition Define a process and plan for updating requirement information Define and document category requirement solution objectives and continuous improvement expectations
External Market Analysis	Participate with the SSO in market analysis and best practices benchmarking continuously to identify opportunities to improve results Design SSO market analysis reporting process to enable adequate updates to business stakeholders on market influences and impacts
Cost Analysis	Establish baseline operational and management cost model using input from internal stakeholders against which the SSO cost performance will be measured Compete a full business case justification for make versus buy decision Develop a cost management reduction plan with internal stakeholders and SSO Develop a spend reduction plan based on volume consolidation and leveraging with SSO aggregated volumes
Supply Market Assessment	Benchmark SSOs in the market to validate the cost benefit and best practices of shared services solutions Participate with SSO in supply market investigations and source qualification with focus on process efficiency and quality consistency Investigate supply market periodically to evaluate cost and risk of this supply solution (i.e., could the SSO be spun off into a subsidiary, a candidate for acquisition, or workscope outsourced) Prepare a supply base strategy based on the attributes identified from the supply market investigation Investigate suppliers' positioning against market behaviors to ensure requirements can be met
Category Portfolio Segmentation	Category portfolio segmentation indicates that the requirement is best managed through a shared services/equity business model; the same segmentation process will be used by the SSO (with possible support by the business unit) to determine the best sourcing business model to use for specific category requirements Develop a category management plan prepared by the SSO with input from the business unit; SSO follows the appropriate process for managing each of the sourcing business models according to the spend requirement
Total Cost of Ownership Approach	Build a TCO model to serve as a baseline against which the cost of the SSO to the business unit is measured Participate with the SSO in developing category requirement specific TCOs Build a plan that supports focus on overall category management and total supply chain costs using internal cost model; use joint efforts (SSO and business unit) to identify ways to streamline services provided, to improve quality or reduce costs, and to ensure that the business unit can meet objectives
Risk Assessment	Participate in completion of a formal risk assessment and mitigation plans with the SSO; the SSO is responsible for managing and minimizing risk with periodic reporting requirements Prepare a contingency plan should there be a need to change the sourcing business model (e.g., change to outsource to a supplier, spin off as a subsidiary) or change in external suppliers managing the SSO
Value Assessment and Balance	Business unit focus: lower prices and costs; assured supply with captive supplier SSO focus: increased volumes and the ability to invest in itself to improve capabilities and costs; assured demand with captive buyer
RFx Solicitation / Bid Management	3–5 year solicitation cycle Solicitation purpose is to seek a competitive fixed fee with improved cost management and cost savings Define objectives setting and final decision criteria with business stakeholders; business management and business stakeholders participate in final selection of the supplier Request for proposal or request for proposed solution is used if a buyer seeks cost savings commitments and other value drivers using an external shared services source



BUSINESS MODEL MANAGEMENT CONSIDERATIONS

	4–6 months to select an external shared services provider
Supplier Selection Drivers	Pre-evaluate core capabilities and cost management efficiency
Risk Management	Prepare formal risk mitigation and management plans
Contract Approach	3–5 year complex services contract (for external shared services providers) with inclusions to mitigate and manage risk and cost efficiency internally Formal memorandum of understanding or agreement between SSO and business unit A periodic formally documented determination of measurements and cost objectives (for internal shared services provider)
Pricing Model	Nonprofit model—Typically transaction fee charged to business unit; may use headcount or overhead allocation charge but not a preferred approach For-profit model—Transaction fee charged to business units plus add-on fee (profit) Rebates paid to business unit when transaction fees exceed cost Annual reset of transaction fee (if internal SSO)
Category Management Governance	Internal shared services: Organizational policies and procedures supported by organization design decision making and management provide governance External shared services: Develop and document process for holding formal quarterly reviews supported by additional internal stakeholders
Supplier Relationship Management	Business unit holds formal meetings with the SSO (minimum quarterly reviews); business unit is included in specific external supplier reviews as appropriate Internal shared services: Relationships reflect organizational structure and cross-functional integration behaviors and decision making Escalation process follows the prescribed company protocols External shared services: Business unit plans regular interactions to ensure effective relationship development and decision making Business unit defines a formal escalation process for service delivery issues Business unit may be a member on the provider’s category team
Performance Management	Develop operational metrics based on chosen economic model (transactional, output, or outcomes) SSO and business unit develop and use a formal operational and relational scorecard Internal SSOs: Use organizationally defined performance objectives Develop cost-focused measures; business unit typically develops a formalized cost target tracking process SSO and business unit create customer satisfaction surveys and develop a management plan External SSOs typically managed as preferred, performance-based, or Vested
Continuous Improvement / Transformation / Innovation	Business unit develops a formal capture and assessment process for improvement opportunities Internal shared services: SSO follows the business requirements and objectives for continuous improvements and requires external suppliers to proactively identify and implement continuous improvement opportunities as part of the contracted requirements External shared services: Contract includes defined guarantees for continuous cost improvements through efficiencies or alternate solutions
Compliance & Special Concerns	Internal shared services: Follows business compliance protocols perpetually monitored External shared services: Business unit creates an audit plan to verify supplier compliance with government and company-driven requirements
Exit Management	High impact to business if internal SSO is outsourced or external SSO is exited Internal shared services: Exit plans are part of overall business plan External shared services: Business unit develops a budget for transition costs and resource allocation Business unit develops a formal exit management plan with longer duration transition allowance because of high impact to business operations with supplier removal and replacement



BUSINESS MODEL MANAGEMENT CONSIDERATIONS

Sourcing Considerations Checklist: Equity Partnership Model

Consideration	Attributes
Link to Business Objective	Equity partner is purposely created to enable business strategy execution Corporate objectives are developed jointly by equity partners; business and supplier stakeholders incorporate them into their specific performance goals
Requirements Analysis	Requirements are provided as part of the standard business operation and execution process
External Market Analysis	Use of market analysis and benchmarking to evaluate benefits of using an equity partner model Use market analysis to determine influences and impact on the equity partner Use SWOT (strengths, weaknesses, opportunities, threats) analysis to validate equity partner value and to determine appropriate adjustments in the model design Establish competitive cost solutions with internal equity holding
Cost Analysis	Build a cost model with hard and soft costs, and conduct an analysis of cost drivers Assist in building a cost management plan focused on improving profit and loss (cost and revenue) Cost management objectives are established and driven by the business, are focused on being competitive, and are tested by benchmarking Focus of the equity partner is on profitability
Supply Market Assessment	Use benchmarking to search for best practices, cost efficiency, and innovation practices in the supply market to compare to the equity partnership Investigate the supply market to validate the equity partner position (i.e., leader or follower) and potential risks that could affect requirements delivery
Category Portfolio Segmentation	Completed portfolio segmentation indicates the requirement is best managed with an equity partner business model Develop a category management plan jointly with the equity partner
Total Cost of Ownership Approach	Develop and use a TCO model to monitor cost improvements; the primary focus is on how costs (influenced by the buying unit's behavior as well as operational behavior) impact profit
Risk Assessment	Prepare a contingency plan to mitigate any identified risks
Value Assessment and Balance	Business unit: Lower total costs Equity partners: Increased profitability and potential growth
RFx Solicitation / Bid Management	5+-year solicitation cycle seeking mitigation of risk and internal cost management
Supplier Selection Drivers	Typically no choice: Business unit is directed to use equity partner
Risk Management	Typically high-risk/high-reward scenario Formalized use of company standard risk management planning process; associated with investments
Contract Approach	Internal cross-departmental documented agreement for delivery of specified requirements
Pricing Model	Shared costs and sometimes shared profits; predetermined markup based on company policies and financial objectives
Category Management Governance	Formal monthly reporting and business reviews covered by company policies, procedures, and reporting structures Business unit typically facilitates governance between key operational stakeholders and business management resources
Supplier Relationship Management	Business unit may have a seat at monthly business reviews—may be part of business strategy planning process Business unit may be included in business strategy planning process to address specific category requirement influences
Performance Management	Focus is on TCO and potential profit impact measured against objectives influenced by the category requirement
Continuous Improvement / Transformation / Innovation	Compliance with government and company policies and practices perpetually monitored as part of the business protocol
Compliance & Special Concerns	May or may not have high impact depending on the rationale for discontinued use of the equity partner
Exit Management	Exit (discontinued use of equity partner) contingency plans are developed by the business as part of the business planning process Budgets are established and resources are identified and are included in the plan to manage transitions effectively

