

Innovative Sourcing Case Study: VF Corporation Manages ITO Request for Proposal Cycle in Record Time

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At A Glance

VF Company Profile

VF is a global leader in lifestyle apparel with a diverse portfolio of jeanswear, outdoor, imagewear, sportswear and contemporary apparel brands. Its principal brands include Wrangler®, Lee®, Riders®, The North Face®, Vans®, Reef®, Eagle Creek®, Eastpak®, JanSport®, Napapijri®, Nautica®, Kipling®, John Varvatos®, 7 For All Mankind®, Lucy®, Majestic® and Red Kap®.

VF shares are traded on the New York Stock Exchange under the symbol "VFC." The company had total revenues of more than \$7 billion in 2008 and has more than 46,000 employees, with operations in more than 150 countries.

VF's stated vision is: We will grow by building leading lifestyle brands that excite consumers around the world.

Ours is a perpetually driven culture, focused on constant innovation. Using deep research and insights, we combine the art and science of apparel to create products that excite consumers and brands that inspire loyalty.

We responsibly manage the industry's most efficient and complex supply chain, which spans multiple geographies, product categories and distribution channels.

Our goal is to continuously exceed the expectations of our consumers, customers, shareholders and business partners. We help our retail partners win with consistently solid execution and outstanding service. And we continually find ways to improve our performance and generate bottom line results.

Our people are the source of our success. VF associates share a deep commitment to diversity - in people and ideas. We conduct business with the highest levels of honesty and integrity, and we foster a positive working environment based on creativity, collaboration and congeniality.

These are the things that make us great. These are the things that make us VF.

Introduction

Faced with resource and market-driven challenges, a lack of scalability and a complex application portfolio, VF (NYSE: VFC) sought to re-examine their IT service delivery options. A typical information technology outsourcing (ITO) request for proposal (RFP) cycle can span five months or longer. VF knew they wanted to follow a different path and sought a revolutionary approach to the RFP process that would deliver the results they were seeking in a compressed timeframe. The key criteria they established upfront ultimately enabled VF to go from strategy development to vendor selection in a mere six weeks, and successfully leveraged innovation to achieve their strategic and tactical goals.

Transforming any organization via outsourcing can yield significant competitive advantages but embarking on an outsourcing-based process transformation journey can also produce results ranging from mild dissatisfaction to disaster. This case study offers a step-by-step examination of VF's successful outsourcing initiative.

Current and Future Transformation Goals: Delivering Innovation

VF's primary objective for this initiative was to transform its Information Technology/Information Systems (IT/IS) group into one focused on delivering and enabling innovation across VF's complex organization. Key goals included: contributing value to the ongoing success of VF and its 30-plus brands by aligning IT services with the current and future needs of the business and the customer; improving delivery of IT services; effectively managing risk; and reducing the long-term cost of services.

VF's goals were to:

- Improve customer satisfaction and perception
- Create a cost-justifiable service in which the IT organization is deemed a business partner
- Provide service that meets business, customer and user demands
- Deliver a higher rate of change with an improved rate of success and shorter cycle times
- Adhere to integrated, centralized processes

VF was looking for its partner in this initiative to provide:

- Best practices in escalation and communication policies
- Best practices in work estimation
- High quality code development with defect tracking and reporting
- Best practices in “project to support” hand off
- Best practices in application-level service level agreement (SLA) management
- Resource capabilities and capacity to bring expertise to quickly resolve “hot” incidents
- Quick (days vs. weeks) deployment of additional resources onto a unit of work
- Development of a center of excellence around software VF may acquire
- Extensive best practice testing capabilities, including ability to flex resources as testing cycles require, as well as use automation to improve quality and efficiency
- A pricing policy that allows for rapid ramp up or ramp down of resources in order to balance spending patterns in relation to strategic plans and budgets
- Provision for building in categories of development hours into the annual plan that can be shifted among applications as business needs dictate
- Strong internal human resource management practices that maximize retention of expertise and knowledge
- A strong training program for knowledge transfer from both internal and external resources

Obstacles to Achieving Innovation and Transformation Goals

Achieving its innovation and transformation goals had proven difficult for VF from a resource perspective. Increases in the complexity of applications increasingly limited resource availability and commercial software dictated newer skill sets that were increasingly difficult to bring on board. These

issues resulted in a reliance on contract services from multiple sources. VF also faced an aging workforce with many of its technical “baby-boomers” nearing retirement.

From a project perspective, these factors impeded VF’s ability to rapidly scale up for large, critical projects. The nature of the apparel industry and VF’s desire to differentiate itself in the marketplace had resulted in a high level of customized code, which was often difficult to maintain, further challenging resource availability.

The Journey

Stage 1: The Assessment

The journey started with an IT assessment. VF enlisted EquaTerra to review the current state of application support and maintenance in its IT organization. The scope was well defined - all applications supported by the application maintenance organization, Global Production Management (GPM). GPM is part of VF’s global IT organization, called Global Business Technology (GBT). GBT is the organization that provides information technology services to VF and has responsibility for global delivery of all infrastructure and applications.

EquaTerra looked at various service delivery options, adjusting the lens to focus on quality and performance. While cost was not the primary driver of the effort, it was used to establish a base case. This enabled VF to understand all the costs associated with maintaining its applications. This information, coupled with EquaTerra’s extensive knowledge of service providers, enabled VF to gain insight into the viability of collaborating with a tier 1 service provider.

EquaTerra then proposed an aggressive sourcing strategy that would significantly shorten the process to get to selection. This involved implementing a transparent process with the service providers and providing them the opportunity to demonstrate their capabilities and their ability to leverage innovation through a collaborative relationship with VF. This process further solidified the relationship between VF and EquaTerra, transforming EquaTerra from a consultant to a trusted partner.

Stage 2: The Pre-Selection Process

EquaTerra proposed a multi-layer approach for selecting providers:

1. Tap into EquaTerra's extensive service provider database to pre-qualify 10 service providers.
2. Review of the opportunity by EquaTerra to determine service provider interest.
3. Reduce the list to five through an interview and screening process and subsequent qualifications summary.
4. Undergo an iterative process to reduce the list to three based upon the data collected up to that point.
5. On site visit with VF by each of the three service providers for a day and a half to promote their capabilities and interact with the GBT management team involved with the selection process. This interaction was a critical first step, as it gave the VF management team an indication of what a relationship with these service providers would be like, supporting the goal of finding a partner that works collaboratively and delivers quality results.

Stage 3: The 'Offering Document'

In parallel to the pre-selection activities, VF and EquaTerra developed a series of detailed documents describing the environment, requirements and expectations for the initiative. This collection of documents was assembled into what was called the "offering document."

The offering document was modeled after the standard RFP prepared by EquaTerra. It contains all the components one would typically find in an RFP: identification of goals and transformation opportunities; statement of work; service levels; volumetric data; pricing forms; and personnel projection matrix. The goal of the offering document was to gain insight into the service providers' capabilities, understand their ability to deliver on quality and to scale, and ensure that they had the ability to stand behind their promises. Finally, cost was captured via the pricing forms and personnel projection matrix.

- From a volumetric data perspective, VF included critical components such as ticket volumes, proposed in-scope application list, how VF and third party resources were distributed across applications, the software tools that were in place to support those applications and

identification of the businesses supported via these applications.

- Another desired outcome of the service providers' response to the offering document was to gain a better understanding of the cultural differences between the organizations and whether there would be a "fit." In particular, GBT was interested in understanding how the service providers would manage relationships with VF's other suppliers and its internal teams and lines of business.

Stage 4: Introductory Sessions

The next step involved bringing three service providers on site for one and a half days. This was where the process of partner selection really started to diverge from the traditional outsourcing selection process. This was a radical departure from the norm for both VF and the service providers. For VF, it immersed GBT into the EquaTerra selection process and methodology. For the service providers, it gave them precious face-to-face time with their prospect and an opportunity to promote and learn. Each of the three service providers was given an opportunity to discuss its capabilities in an interactive forum. For VF the process and methodology opened a window into three key areas: capability alignment, how well each service provider understood the offering document and cultural fit. These sessions were facilitated by EquaTerra and focused primarily on the relationship. Each prospective partner was given the opportunity to ask questions and share information. Ultimately, these sessions were used to eliminate one of the candidates, reducing the list to two.

Stage 5: Deep Dive Sessions

The two remaining service providers were invited back to VF to conduct "deep dive" sessions. Deep dive sessions provided the service providers the opportunity to better understand the requirements and scope of the offering document. This also gave them the opportunity to perform a level of due diligence much earlier than what one would see in a typical outsourcing process.

The deep dive sessions involved a series of intensive, four-day discovery workshops, enabling both parties to focus on cultural fit, scalability, capability, technical skills, flexibility and investment. This raised the bar for the service providers in terms of the quality of their response. Typically, the service

provider is not provided this level of time prior to final selection. VF's resource-constrained GBT team committed most of its normal work day to work with the service providers. This was a testimony to VF's commitment, level of collaboration and focus on choosing the right partner for this transformational initiative. Immediately following the deep dive sessions, the service providers submitted their proposals and the final selection process began.

Stage 6: Proposal Analysis and Selection

Determining the right decision makers and assigning responsibility for proposal analysis and section was critical. For VF, the key decision makers were the team that had worked closely with the service providers up to this point and would own the relationship moving forward. The proposal was assessed objectively and subjectively. To assist in the objective assessments, EquaTerra provided a scorecard for ranking the service providers in several different categories: solution, change, partnership and risk. Prior to receiving the proposals, VF and EquaTerra went through the process of weighting these categories.

Subjectively, VF was able to glean some insight from the deep dive sessions into what a relationship with the service providers would be like. Since many of the service providers' account team members were involved in the deep dive sessions, VF had the opportunity to consider individual personalities, cultural differences and communication skills. The final component of the analysis and selection process included engaging GBT leadership. Members of the GBT executive steering committee also had the opportunity to provide their impressions of the service providers based on their review of the proposals and their personal interactions.

While the proposals were being analyzed, some preliminary due diligence activities were taking place. Specifically, several reference calls were conducted to address the service providers' capabilities in relationship management, technical ability, scalability and issue management. Additionally, questions were asked regarding the type of relationship in play (transactional versus partnership) and term of the contract. VF was considering "How can this work?" as opposed to trying to identify problems. Collaboration with the service providers facilitated these conversations.

When the final decision was made, it was based on the service provider's ability to deliver quality, scalability and performance. Price, factored into the business case, was secondary. In fact, both service providers competitively priced their service offering, coming in below initial projections.

Stage 7: Negotiations

After reviewing objective and subjective data, VF selected the winning service provider. After VF announced its final decision, negotiations with the selected provider began immediately. To assist with this effort, VF brought in external counsel to develop the contract and facilitate the negotiation process. EquaTerra provided an additional advisor to provide and seed the contract templates, structure the contract and assign resources to take ownership of delivering on contract documents. This was a highly collaborative effort with all parties (VF, external counsel, the service provider and EquaTerra) contributing. VF, realizing the value of governance, participated in a second work stream to commence a governance design effort. EquaTerra drove this work stream, bringing in a governance subject matter expert. A third work stream – transition – was also put into play. The transition effort was strictly one of planning: scheduling resourcing and identifying infrastructure and logistical requirements.

Just as it is essential to use an advisory service, such as EquaTerra, to assist with the outsourcing lifecycle it is equally critical to bring in outside counsel to negotiate and develop a fair contract for both parties. Choosing a law firm that is collaborative, while protecting the interests of its client, is an essential first step to transparency and a partner relationship. The most important component to realizing innovation is establishing that tone of collaboration, and that tone is set at the negotiating table.

Stage 8: Governance Design

When companies fail to reach the elusive goal of innovation, it is typically due to an ineffective governance organization. It is estimated that a deal can lose up to 75 percent of its projected value due to ineffective governance. The purpose of governance is to address risk mitigation and value realization. Outsourcing governance must effectively balance these objectives while bringing the intent of the deal to life.

At the recommendation of EquaTerra, VF took an aggressive approach to governance design, starting the work stream several weeks before contract signing. An EquaTerra governance specialist facilitated workshops to design and structure an organization based on three essential components: an outsourcing governance operating model, relationship management and technology enablement (i.e. leveraging the right tools). Once the initial governance foundation was established, The service provider was asked to participate in the governance design process, further cementing its role as a partner rather than a supplier.

Stage 9: Transition Planning

EquaTerra emphasizes that you cannot realize innovation without successful transition. As with governance design, transition planning started several weeks prior to contract signing. This enabled VF and the service provider to get a jump start on defining the requirements. Transition planning was divided into four components:

1. **Logistics** – Identifying physical requirements such as space, power, cubicles, offices, etc. (long term and short-term for transition only), and determining the locations for the deployment of service provider resources.
2. **Connectivity** – Defining short- and long-term solutions such as VPN, Proxy and MPLS; factoring in disaster recovery considerations; and providing full network redundancy.
3. **Infrastructure** – Building out desktops and laptops for on-site service provider resources (long term and short term for transition only). Based upon the resources scheduled to be on-site during transition (and longer), this involved indentifying desktop and laptop requirements, setup for physical and logical security, and build out IDs.
4. **Approach** – Determining the approach to transition support of applications. This looked at business cycles, retained staff availability, number of re-badged resources, and defining incentives for ensuring separated employees remained through end of transition. The service provider brought experience to the table with templates and processes, and VF's execution was flawless, thus enabling a quick start and sustainable process to transition.

Conclusion

Outsourcing is never easy. There are many challenges to consider, including technical, functional, cultural and economical, to name a few. Outsourcing as a means of achieving innovation and transformation is downright complex and difficult because it is advanced outsourcing.

VF's initiative with EquaTerra worked due to the level of support from VF's senior management. Both the CIO and the CFO were fully committed to leveraging outsourcing as a means to achieving innovation and transformation. It worked due to the relationship established by the client and the service provider early in the process. They essentially worked as one team to address the challenges identified in the offering document. They focused on risk management and service delivery, not cost. For VF, the key was finding a partner that would help it raise the bar on the quality, performance and scalability it could deliver to its business areas. For the service provider, VF offered an opportunity to work with a world-class consumer apparel corporation wanted a partner and not just a supplier.

Clearly, this is not a typical outsourcing deal. EquaTerra introduced an accelerated approach to getting to contract signing. In fact, from the initial offering document to contract signing the process took only four months. A deal of this size will typically run from six to nine months. The reduced schedule resulted in lower investment costs for all involved. For VF, this reduced the advisory fees, both from EquaTerra as well as from the external legal counsel. For the service provider, the investment was considerably lessened - there was no drawn out formal RFP process and the on-site time allowed it to significantly reduce its risk, thereby allowing it to price competitively. For EquaTerra, it allowed an opportunity for them to leverage its considerable intellectual property and experience in developing an approach that accelerated the entire process without compromising quality.

In the end, VF gained a strategic partner, one capable of helping it achieve its goal of delivering innovation to the corporation. The relationship is based on collaboration, not transactions. Collectively, they have forged a relationship built on trust and transparency.

Learn More

Webcast: Innovative ITO Sourcing: VF Blazes a New Trail

<http://www.equaterterra.com/fw/main/Innovative-ITO-Sourcing-VF-Corporation-Blazes-a-New-Trail-1050C514.html>

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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