



Innovations in Outsourcing: The Sprint Nextel Experience



Case Study

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Introduction

Sprint Nextel provides a comprehensive range of communications services that bring mobility to consumer, business, and government users. By the end of the second quarter of 2012, Sprint Nextel had served more than 56 million customers. The physical infrastructure required to support the operations of this Fortune 100 company has resulted in an extensive and complex real estate portfolio and a wide array of real estate services. All of these services were managed internally at Sprint; however, as competition continued to grow, Sprint was increasingly driven to focus on their core competencies to remain competitive. In 2008, Sprint's real estate organization made the strategic decision to outsource its full scope of services.

The partnership that has grown between Sprint and CBRE in the four years since (2009-2012) has been extremely successful and mutually beneficial. Each company has focused on its own areas of expertise and has delivered on the original strategic goals. This high level of performance established the reliability and trust that strengthened the relationship and developed it into an alliance partnership that built on the complementary strengths of the two organizations. The successes enjoyed have been extended to the larger ecosystem of strategic suppliers that exist in the service delivery processes. The alliance has, in essence, allowed Sprint and CBRE to deliver end-to-end integrated robust solutions to solve business issues, enhance customer experience, and drive mutually beneficial and innovative solutions to exploit new market opportunities.

This case study highlights the spectacular successes of Sprint Nextel's outsourcing arrangement with CBRE in an area that is typically not the focus of outsourcing arrangements. The Sprint Nextel-CBRE real estate outsourcing arrangement includes a whole array of services across a large number of sites and showcases the creation of value and innovation in services that can be derived from strategic alliances in outsourcing.

Background

At the end of 2012, Sprint's real estate portfolio consisted of approximately 2,000 locations totaling 26 million square feet of occupied facilities with a total operating cost of approximately \$350M. The portfolio is also complex, consisting of four major asset classes: Commercial, Retail, Call Centers, and Technical. Management of this real estate portfolio requires an array of real estate services consisting of twelve unique service delivery functions ranging from project management and lease administration to customer care management and innovation management.

In the competitive mobile communication industry, technology and innovation are the main drivers for a company's growth. Organizations competing in this market space need to maintain a focus on their core business to be successful; mindful of this competitive need, Sprint leadership decided to outsource critical, yet non-core functions such as real estate services. Outsourcing of real estate services to an established service provider in this area would enable Sprint's real estate organization to provide quality services to its customers at reduced costs. It would also allow Sprint to leverage the competencies and experience of a global service provider to drive innovation and enhance the strategic value of real estate service delivery to the enterprise.

Recognizing the criticality of real-estate services for Sprint, Sprint's internal real estate organization has consistently sought to improve their operations through innovation to deliver value to their customers. With the outsourcing of the real estate services, operational control would pass to an external service provider; this could make it difficult to develop new innovative services. Reducing costs through outsourcing and increasing responsiveness to customer needs through innovations appear to be irreconcilable objectives, requiring many organizations to make a trade-off between the two. This can pose a problem in total outsourcing situations, where the difficulties associated with coordinating the problem-solving and creative development work in the client and service provider organizations could result in a loss in adaptability to changing customer needs. Therefore, the leadership of the Sprint real estate services organization approached the outsourcing arrangement strategically and focused on creating a relationship where both parties could collaborate to achieve high levels of service excellence.

After an extensive assessment and sourcing effort, Sprint chose to partner with CBRE. CBRE Group, Inc. is a Fortune 500 company headquartered in Los Angeles, and is the world's largest commercial real estate services firm (in terms of 2011 revenue). CBRE has approximately 34,000 employees (excluding affiliates), and serves real estate owners, investors and occupiers through more than 300 offices worldwide. CBRE offers strategic advice and execution for property sales and leasing; corporate services; property, facilities and project management; mortgage banking; appraisal and valuation; development services; investment management; and research and consulting.

Innovating to drive innovations

The leadership of Sprint and CBRE recognized that an overall innovation management process supported by well-developed governance structures was necessary to generate added value in an outsourcing relationship. They developed a unique yet sustainable partnership arrangement that combined 1) an "innovation process", 2) a new governance model with a corresponding performance management structure, and 3) new technologies for communication and information management for this outsourcing arrangement. The results of this collaborative effort extended beyond the Sprint-CBRE dyad to an extensive network of suppliers of allied services.

The innovation process

One of the goals for the Sprint-CBRE partnership was to create new real estate focused solutions and tools through collaboration and innovation. To that end, Sprint and CBRE partnered together to develop and implement an Innovation Council to jointly drive innovation. Senior executives from both companies came together to work toward one specific goal: identify ways to utilize Sprint's mobile technologies to deliver CBRE's real estate services. This council was highly successful in the development of ideas and potential technology solutions that "mobilized" business processes. Eventually, other strategic partners became involved in the Innovation Council broadening its membership across the larger network of suppliers. This approach of establishing an Innovation Council with specific focus from executive management allowed for many technological innovations to be explored and created.

Within an outsourcing arrangement that brings together the capabilities and competencies of two committed partners, there are a significant number of areas where innovation can take place. To maximize the return from resources, only those opportunities that have the greatest impact to the organization and those that have the best potential to be successfully implemented should be pursued. The Sprint-CBRE partnership implemented a comprehensive five step evaluation and deployment process approach to identify high potential candidates and foster their development. The activities during the different stages in this process take innovation from a simple idea and evolve it through joint collaboration and assessment to fully develop, test and successfully deploy it.

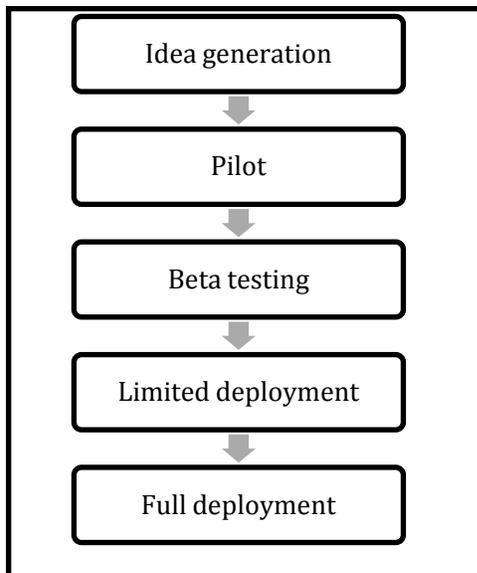


Figure 1: The Five-step Innovation Process

The innovation process begins at the idea generation stage, which consists mainly of mapping out the concept of an idea. During this concept step, the idea is developed and fine-tuned by the partners. Market research is done to ensure that the idea is feasible and to validate the assumption that the idea would provide a solution for a mutual, or even industry, problem. At the conclusion of the idea generation stage, work on a prototype of the concept begins. The prototype is the first *model* of the finished concept, but is not scalable from either a production or deployment perspective. The prototype is not completed until the next stage, when the partner teams move into the pilot stage.

During the next two stages, the prototype is further developed and tested. The prototype is completed and used outside a strictly controlled lab environment in the pilot stage. In the beta testing stage, joint company comparisons are done, including industry comparisons, and the prototype of the concept is run through various tests to identify problems to be addressed and improvements to be implemented. During

this beta testing stage, the focus is on exposing the flaws to ensure that the final solution meets the needs of the customer.

When the *model* moves into the limited deployment stage, it is implemented lightly in selected areas to facilitate more focused testing. Once the concept is in the full deployment stage, the innovation process is complete, barring any future expansions. Appropriate performance indicators are identified and used at each stage to gauge the success of all activities in the process. When an innovation is developed for a specific asset class of real estate services, the performance indicators are created to capture the contribution of the

innovation to the desired strategic outcome for that asset class. It is critical to have effective performance measures throughout the innovation process to ensure a successful outcome.

The 4G-based mobile solution developed through the joint effort is a prime example of the value produced by the innovation initiative. Working together, Sprint and CBRE developed a Site Assessment Mobile Application that runs on a smart phone or tablet PC. This internet application allows users to aggregate information from site inspections by storing site data, site surveys and photos. Previously, these data were collected on paper forms; the new application alleviates the need to manually rekey all of the information from a paper form into a database or spreadsheet. This approach has dramatically improved the inspection process, and doubled the efficiency of Sprint's formerly time-consuming and costly commercial property inspections. As the application was adopted by the various partners involved in the entirety of the service delivery process, the benefit grew proportionately. Upstream functions could now feed information to downstream functions in a seamless and real-time manner. Information produced in one process by one partner could now be quickly accessed and leveraged in another process, creating greater efficiencies and optimizing the entirety of the effort. The development and implementation of this real estate solution is testimony to the value provided by the innovation process.

A governance model to support innovation

Due to the complex nature of corporate innovation, the innovation management process has to be supported by well-developed governance mechanisms. The expectations around innovation add another level of risk to an already risky proposition; past research has shown that strategic alliances are challenging to manage leading to very high rates of failure. Coming to this outsourcing arrangement with considerable experience in managing partner relationships, both partners realized the importance of jointly developing a governance model. Sprint and CBRE set out to lay the groundwork for a structure that would facilitate the provision of real estate services to the highest service levels and drive a combined effort around innovation. Having defined the scope and strategic objectives for the partnership, the partners worked together to define how success would be measured and to create an implementation and change management plan. This model was then extended to include other strategic providers in the real estate service delivery processes as the effort grew to encompass the ecosystem of providers.

The governance model that Sprint and CBRE deployed was segmented into three major tiers that form the basic hierarchy of the governance model (see figure 2). Creating a plan and documenting an approach for these as well as other critical areas was vital to the success of the Sprint-CBRE partnership.

First the Strategic Governance team (1st tier) was established; this team consisted of executive management from both companies. This team met on a bi-annual basis, to review results of the outsourcing arrangement and give guidance. The Strategic Governance team was intended to perform joint road mapping for all partners as well as focus on developing the collective ecosystem for mutually optimal results. The Strategic Governance team took into consideration operational, financial and contract trends and maintained an open dialog concerning any potential opportunity or threats that might come upon the partnership.

The Management Governance team (2nd tier) consisted of senior account management from both companies. This team was intended to monitor critical trends as well as any joint program progress that might develop over the course of the partnership. The Management Governance team met quarterly and supervised any performance indicators related to contract issues by communicating regularly either face to face or via telepresence sessions.

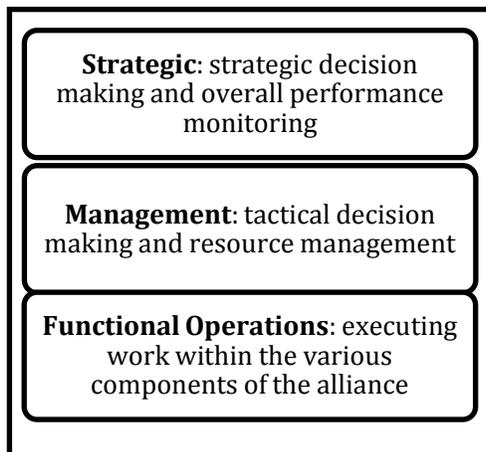


Figure 2: Three tiers of the governance model

Finally, there were multiple Operational/Functional Governance teams (3rd tier) established to best monitor performance in line with operational considerations. Each of these teams consisted of the operational counterparts from partner organizations over the various functions within real estate. The Operational Governance teams established a series of monthly control meetings to review each aspect of the plan.

The performance indicators were matched to the three-tier governance structure, allowing each level of governance to have its own definite set of performance indicators relevant to the respective areas of responsibility. The management of the Sprint real estate portfolio encompasses dozens of functions and hundreds of discrete sub-functions; all of them must be successfully executed to ultimately succeed. These operational performance indicators are intended to maintain the accountability of both line management and individual contributors alike. As the scope gets broadened at the executive

level, key performance indicators must aggregate metrics for multiple discrete functional areas. This level can screen and appraise the success of functional management on a more explicit level by using executive performance indicators for measurement. Finally, as the scope broadens even more to the strategic level, the indicators reflect the comprehensive performance of the total program. It is the responsibility of each individual partner to monitor the status of their specific accountabilities, but they must do so in such a manner that maintains focus on the collective performance of the alliance in obtaining mutual objectives.

To be successful at creating and maintaining effective performance indicators, a business process management (BPM) approach was adopted. The BPM approach emphasizes the management of business processes across the various functions of the organization to achieve alignment of all aspects of an organization in meeting customer needs. This approach promotes a continuous focus on process improvement, a fertile ground for innovations. The BPM approach also drives transparency into processes, thus alleviating the problems that could arise from information asymmetry between partners in an outsourcing relationship. This transparency also provides a strong foundation for the development of trust between partners.

From dyad to constellations: Extending the governance model

By leveraging this new approach to building partnerships, Sprint and CBRE were ultimately able to establish many strategic partnerships, creating a network of service providers delivering inter-related services. The ability to group all of the strategic and alliance partnerships into a single network offers to reveal the ultimate potential value of the inter-linked innovation framework and governance model. Innovations related to the entirety of the real estate service delivery model, such as end to end process optimization, interoperable technologies, and shared data platforms, can be created through leveraging the strengths of different organizations. However, dealing with the governance model for a large ecosystem requires consideration of issues that are not apparent in a dyadic relationship.

Building on the learning from the development and implementation of the governance model for the Sprint-CBRE partnership, a new model was used to evaluate and map out the actual ecosystem of the relationships among the set of service provider organizations in the business domain of real estate services. Within this extensive network, separate action-focused teams were constructed to pursue one of the goals in the sights of the alliance. Each group of partners, working together to pursue a common goal

or need, can be viewed as a *constellation*. With this collaborative effort, the constellations can execute a much wider and diverse range of tasks and goals, thus furthering the agenda of each individual partner as well as the ecosystem as a whole.

The constellation model begins with a governance group, with Sprint and CBRE forming the core of the network and other strategic service providers forming the periphery. Each of these constellations was managed by one or more of the strategic partners in tandem with a Relationship Manager from the Alliance Partner, who acted as a lead partner (a “Relationship Manager”) for that particular constellation. These teams intersected as needed. The collective of this constellation established the ecosystem for the alliance; it brings the strategic partners together by providing support and guidance to one another in the process of pursuing needs or opportunities.

Information technologies to support governance structures

Innovations in the use of information technology are necessary to support the new governance structures and provide timely and accurate business intelligence. To deliver visibility and insight into business operations, software solutions were implemented that enabled the full business process to be supported in all business process environments, particularly mobile environments. Executing a process and simultaneously capturing the required data to document the process with mobile devices makes data capture possible throughout all phases of the process; this is a significant improvement over previous processes. Individual activities and tasks could be more easily tracked in this operational intelligence models so that information on the current status can be transparent to all levels of management; in addition, aggregate statistics on the performance of multiple processes can be obtained from the system. This information can be used to work with multiple partners to improve their interrelated processes.

To complement the systems that supported business process management, business activity monitoring (BAM) applications were also implemented. BAM is a solution primarily intended to provide a real-time summary of business activities to operations managers and upper management, including the governance tiers. Historically, BAM solutions have not been widely used in service related industries due to the inability to gather information in real time. Individuals involved in completing specific tasks typically have had to wait until they have access to a computer before being able to update their status in any type of software application. This problem is exacerbated in the real estate business, where most activities occur in physically dispersed locations. With the plethora of applications now available on mobile devices, information can be input by a real estate professional from any location.

The application of Quick Response (QR) codes within real estate processes was another area of innovation. By studying the behaviors of commercial occupiers, an assessment was made of areas that occupiers might need additional access to real estate services and support. This led to the creation of a mobile real estate portal integrated with the various systems that support Facility Management services; this integrated with the real estate portal that was already in existence. An application that was developed allows users to readily scan QR codes placed in strategic locations within a restroom and be directed immediately to the facilities segment of the portal; the application allows users to open a service ticket on their mobile device. That service ticket is then routed directly to the appropriate partner that has the responsibility to fulfil the request.

Value created

By setting up an innovative set of processes to drive innovation in the delivery of services, the Sprint-CBRE partnership accomplished impressive milestones that surpassed the objectives that had been set for the partnership. The original financial objective was to reduce overall operating expenses, normalized for portfolio and service adjustments, by \$35M over the five year term of the contract. The team reached this

goal in the first three years and has continued to reduce the expenses further. While these cost reductions are impressive, the recent benchmarking studies that the two companies have participated in are even more impressive. In a recent study of Fortune 500 companies with similar assets, Sprint was in the lowest quartile for overall operational cost per square foot of real estate. In a similar metric, Sprint was in the lowest quartile for real estate cost per employee supported. This industry validation is one of the leading indicators of the success of the approach implemented through our partnership in reducing the cost structure of real estate services.

There were also other significant improvements in the areas of cost reductions, quality, and cycle times in all of the asset classes. In the retail store portfolio, the ability to deliver stores as expeditiously as possible is critical to the overall ROI of the retail program. Innovations in these service delivery processes reduced the delivery period by almost 30%, to a little less than 180 days on average. Within the call center environment, “up time” is a critical component of quality, as it is vital to keep the thousands of call center agents productive. Through innovative improvements in the asset management program that maintains and upgrades critical infrastructure, the partnership was able to reduce annual down time by 18%. This resulted in a reduction of the overall capital budget required to support the asset management programs by over \$5M a year.

Overall customer satisfaction of the employee base with real estate services is another critical performance indicator. Issues regarding the delivery of real estate services can be disruptive to the overall productivity of the work force of the enterprise. Over the life of the partnership, the average customer feedback score has risen from slightly above “satisfied” to a very solid “very satisfied” score.

The improvements in all of these areas were the result of changes made in the service delivery processes, with the changes being the direct results the innovation process. Examples of these innovation processes can be identified throughout the real estate services delivery model. The current real estate portal offering a one-stop solution for real estate services is one example. Before the partnership implemented a comprehensive real estate services portal for the enterprise, the employees had to navigate to various web sites to request services, or contact the real estate group through e-mail or telephone. Not only was this difficult for the customer, but it also made quality assurance relative to the requested services very difficult due to the diversity of different systems that measured the performance. Centralizing all of the service offerings onto a single portal and platform increased customer satisfaction due to the improvement of the customer experience. Yet at the same time, it helped actually lower the overall cost structure since resources to fulfil customer requests could be optimized as a result of having a comprehensive understanding of demand. Similarly, the ability for customers to quickly procure services through the use of QR codes and mobile applications increased satisfaction and lowered overall costs.

The innovative use of mobile technologies resulted in multiple improvements in the delivery of real estate services. To support the large portfolio of real estate holdings, thousands of physical inspections are required each year. The mobile inspection application helped reduce the time required to do an inspection by 50%, resulting in overall cost reductions. However, the quality and timeliness of the data as a result of using the mobile inspection devices were more critical. Customer satisfaction improved due to real-time responses to customer requests received via mobile devices and channelled through the real estate portal.

Beyond these objective and subjective performance measures, the partnership received external validation for their achievements. The partnership received an internal Sprint award for Service Excellence. In addition, CBRE was officially placed into Sprint’s Alliance Partnership Program, which is a position held by only the most critical and important partners. This is a stellar achievement when put into perspective of which vendors would be seen as mission critical in a telecom industry. CBRE and Sprint were jointly awarded one of the Real Estate’s Industry’s most prominent awards, Corenet’s Industry Excellence Award, for their work in innovation, with the mobile inspection capability. The two companies are also final candidates for another real estate industry award, the Bruce H. Russell Innovator’s Award. It must be

noted that while the improvements in the delivery processes and cost structure have significantly benefited Sprint, it has also benefited CBRE. The innovations developed for this partnership can now be leveraged with other CBRE customers to help CBRE maintain its standing as a best-in-class service provider.

Lessons Learned:

The successful partnership highlights key requirements to drive innovation through outsourcing: (1) a joint comprehensive plan for innovation; (2) a sound governance model aligned with the innovation plan and, (3) the technological capability to capture data in order to have the ability to measure success relative to the innovation plan and governance model. While Sprint and CBRE approached the outsourcing arrangement mindful of the challenges and the need to implement best practices in all three areas, the successful outcome of this outsourcing partnership was a result of pushing past best practices and innovating within the process to develop innovations.

Innovation in business processes is not a serendipitous “Eureka!” moment, but the result of a purposeful process that moves ideas through an iterative build and test process. The business services unit on the client side must take a lead role in the process and act as the middle-man in this process, bringing the expertise of the service provider and the internal business knowledge and demand together. This collaborative process enables the successful creation of new technologies and techniques to meet business needs. As the Sprint and CBRE partnership has demonstrated, an innovation management process that is inclusive of all organizations in the ecosystem with clearly defined roles and responsibilities for each member of the ecosystem is necessary to ensure that ideas are developed and come to fruition for the benefit of all organizations involved.

Sprint and CBRE established a clear definition of responsibilities, communication structures, and performance management with their jointly developed governance models. The three tier governance model ensured that objectives for activities at every level – from the operational processes to resource allocation to strategic management – were set and aligned to achieve the overall goals of the outsourcing arrangement. Similarly, performance metrics were developed to help each tier in the governance structure assess the progress towards the performance objectives set for the level. Strategic level metrics, while vital for senior management, are too broad for specific activity-level changes. Operational metrics are critical for daily management, but there are too many and they are too diverse for use by executive management. For example, financial systems can measure spend against budgets, but cannot effectively manage the processes that are required to be improved to drive superior financial results. By developing performance indicators tailored to each level of management as appropriate, with all measures having a direct relationship to the other levels of performance indicators, the Sprint and CBRE partnership was able to set goals that were necessary to achieve objectives at each level and then effectively manage the efforts to achieve business goals.

The ability to obtain critical information in a timely manner is essential for the overall success of outsourcing arrangements, and requires new technologies to be introduced within the partnership environments. Outsourcing partners must adopt and leverage information technologies that will give the governance organization the transparency that it needs for managing the ongoing activities of the partnerships. These technologies can include operational Intelligence capabilities as well as mobile capabilities to support the capture and dissemination of critical data.

The Sprint-CBRE partnership broke new ground not only in the provisioning of real estate services, but also in outsourcing management. The tremendous business value of utilizing partnerships to deliver services in the real estate industry is just beginning to be realized. The partnership approach elevates the relationships between clients and service providers, and can be utilized to continuously drive value throughout the ecosystem of providers. As seen from the partnership of Sprint and CBRE, such successful

joint ventures bring measurable value for both companies through increased sales of products and services and expand business for both companies with a continuous pipeline of new opportunities.