



# A Road Map for Federal Strategic Sourcing

by Brenda Bearden and Anne Morton

New, more collaborative sourcing critically analyzes an organization's spending and allows agency leaders to make effective, efficient business decisions.

**O**n May 20, 2005, the U.S. Office of Management and Budget (OMB) issued a memorandum to chief acquisition officers (CAOs), chief financial officers (CFOs), and chief information officers (CIOs) concerning the importance of implementing strategic-sourcing initiatives. Under the provisions of the memo, this triumvirate, led by the CAO, is "responsible for the overall development and implementation of the agency strategic sourcing effort." This is an important first step in attaining a world-class commercial strategic-sourcing capability within the government.

In preparing this article, we assessed commercial approaches to enterprise-wide strategic sourcing and supply chain management and examined their application in the federal government. The result is a road map of the governance and methods needed to respond to the OMB directive.

## What Does the OMB Memo Require?

The memo requires that the CAO/CFO/CIO development team do the following:

- ◆ Identify, by October 1, 2005, three commodities that could be purchased more efficiently through strategic sourcing.
- ◆ Develop an agency-wide strategic-sourcing plan (SSP) that includes establishment of a strategic-sourcing council (SSC), as well as communications and training strategies.
- ◆ Report annually, starting in January 2006, to the Office of Federal Procurement Policy (OFPP) to help it target commodities for strategic sourcing government-wide.

## How Significant Is This?

This is a milestone in federal contracting history. The directive is from the deputy director for management of OMB, rather than the more typical source, the OFPP. Most strategic-sourcing recommendations, such as those from the Government Accountability Office (GAO), suggest that the procurement organization is responsible for these initiatives. OMB clearly places shared responsibility with these three “chiefs,” so agencies will need to develop new governance models and methods to comply.

We have developed a solution, drawing on the commercial experience of strategic-sourcing experts at Acquisition Solutions, Inc., and the work of government agencies that have already embarked on this transformation. We describe this solution as a series of steps and illustrate the governance and skills models. However, implementation of strategic sourcing is not necessarily a linear progression but a comprehensive reengineering of a business process.

By presenting our solution step by step, we demonstrate key elements of a successful strategic-sourcing program. Taking the steps in this order would be optimal, but as a practical matter, an organization could begin with a few commodity councils and then build the governance structure. Strategic sourcing is a new way of doing business, and building the governance model early in the program sets the strategic direction that ensures its success.

### Step 1. Establish the SSC

To begin, the CAO forms and chairs the agency-wide SSC, which includes cross-functional executive team members, stakeholders, and customers. The SSC will set the direction and lead the organization by devising the appropriate strategies for success.

The tasks of the SSC respond to the OMB memo:

- ◆ Lead the development of the agency-wide SSP, which will determine the overall acquisition strategy for the agency.
- ◆ Ensure senior management commitment and visibility by establishing ongoing communications with agency leadership.
- ◆ Establish the SSC charter.
- ◆ Establish or commission the integrated solutions teams (ISTs) that will support the council’s work and appoint their members.

- ◆ Establish or commission the commodity councils and appoint their members.
- ◆ Approve IST reports and authorize actions.

The depth and scope of the council charter vary on the basis of its organizational composition. The following excerpt from one agency’s council charter shows the linkage to the agency’s strategic plan, defines overall council goals, and aligns the council with *The President’s Management Agenda*:

The [strategic acquisition council (SAC)] is formed by this charter to assure that the [agency] acquisition program is strategically aligned with the agency’s mission objectives as expressed by the strategic plan. Further, the SAC is chartered to ensure that acquisition plans and strategies are conceived and executed in the most efficient and effective manner.

The goal is to help the agency optimize performance, achieve best value, minimize price, increase socio-economic goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar spent.

The SAC, led by the [chief acquisition officer (CAO)], will provide executive level support to and oversight of the agency-wide life-cycle acquisition planning, implementation, and review process. The council will assure that the [agency] enterprise acquisition architecture supports strategic initiatives of the agency, as well as the capital planning process, the financial management and accountability requirements, human resource planning, and the enterprise information architecture.

Implementation of this charter furthers the agency’s implementation of the President’s Management Agenda and enables it to implement the provisions of the following:

- Services Acquisition Reform Act
- Clinger Cohen Act
- Chief Financial Officer’s Act
- Office of Management and Budget’s 20 May 2005 policy memo entitled “Implementing Strategic Sourcing.”

### Step 2. Establish or Commission the ISTs

Three ISTs report directly to and support the work of the SSC and oversee the recommended commodity

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councils (Figure 1). They perform analysis and planning in three critical functional areas, which are reviewed and updated continuously:

- ◆ Strategic-sourcing planning
- ◆ Spend data and supply market analysis
- ◆ Operational analysis.

(A fourth IST, discussed in step five, is formed after the first three to handle implementation and change management.)

Specialized contractor support can benefit some functional areas because strategic sourcing is relatively new to the federal government, and special skill sets, analytical processes, knowledge of industry benchmarks, commodity expertise, change management, and other tools are often needed. Vanguard organizations in this field are identifying lessons learned, especially in spend data and supply market analysis. Data availability and data integrity are key to these analyses.

When data *are* available, the lessons can be surprising. A presentation by Lieutenant Colonel Tim Reed, Air Force procurement transformation team lead, revealed the following:

An analysis of bearings purchased for the Oklahoma City Air Logistics Center found the following:

- 242 suppliers/distributors
- 339 contracts
- 1037 contract actions
- 247,531 average annual quantity
- \$25.6 million average annual cost

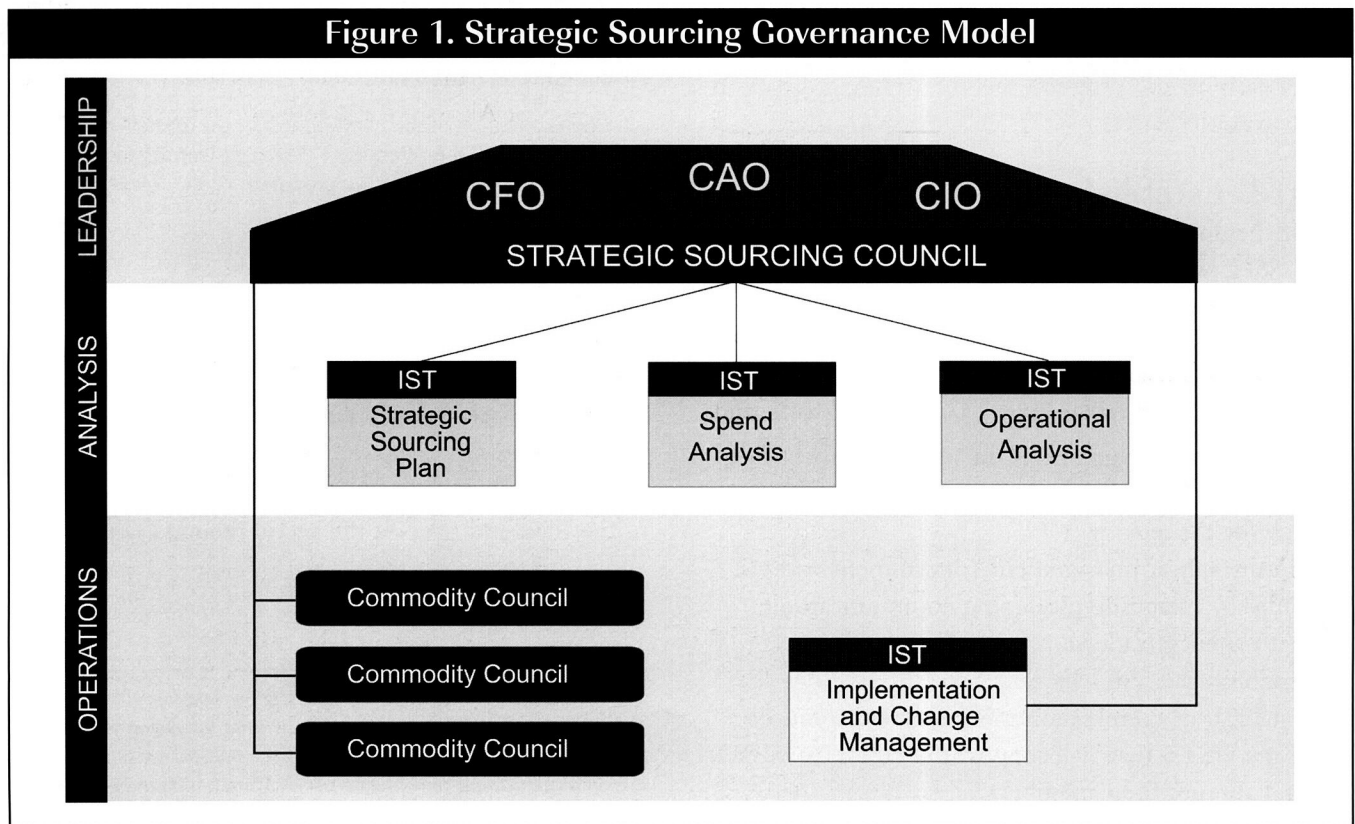
Total bearing manufacturers = 5. Is this the best solution? Not likely. Is 5 the right solution? Probably not for the AF [a small business advocate]. But we know we can do better.

This is one illustration of the power of spend data and supply market analysis. As acknowledged, the sourcing strategy would probably not shift to a big business manufacturer, but would address supplier diversity in size, socioeconomic status, and location. In fact, the overall health of a diverse supplier base is important to the nation's economy and readiness.

### Step 3. Conduct Analysis

The three ISTs share information as they concurrently analyze the three functional areas. Each performs distinct tasks (Table 1), and their outputs are combined to create the overall strategic-sourcing model.

Figure 1. Strategic Sourcing Governance Model



Source: Acquisition Solutions, Inc.



**Table 1. IST Tasks**

Strategic-sourcing planning
<ul style="list-style-type: none"> <li>• Establishes governance structure.</li> <li>• Sets goals and objectives.</li> <li>• Establishes performance measures.</li> <li>• Develops communications strategy.</li> <li>• Evaluates the operational IST's operational analysis report.</li> <li>• Develops human resources capital skills strategy.</li> <li>• Updates SSP with implementation strategy.</li> </ul>
Spend data and supply market analysis
<ul style="list-style-type: none"> <li>• Continually evaluates agency-wide spending.</li> <li>• Identifies candidate commodities.</li> <li>• Analyzes supply market conditions.</li> <li>• Recommends commodity acquisition councils and develops charters.</li> </ul>
Operational analysis
<ul style="list-style-type: none"> <li>• Establishes baseline acquisition organization structure.</li> <li>• Establishes baseline acquisition process.</li> <li>• Evaluates acquisition policies and procedures.</li> <li>• Establishes "as-is" and "to-be" information architectures.</li> <li>• Assesses human capital needs.</li> <li>• Recommends improved structure, policies, and processes in an operational analysis report.</li> <li>• Creates a charter for an implementation and change management IST.</li> </ul>

### Step 4. Review and Approve the Products of the ISTs

The SSC reviews, modifies (if necessary), and approves the various products of the ISTs. Products to be developed include the enterprise-wide SSP, recommendations for candidate commodities, the as-is and to-be models resulting from the operational analysis, and all charters.

### Step 5. Create the Fourth IST—Implementation and Change Management

This IST ensures the implementation of changes throughout the organization to support recommendations made by the commodity councils and the emergence of strategic sourcing. These changes may relate to

organization, staffing, training, policies and procedures, tools, and related initiatives. This team regularly reports its progress to the SSC.

### Step 6. Kick Off Commodity Councils

The Air Force, a practice leader, defines "commodity council" as a cross-functional group of individuals responsible for the development of an agency-wide procurement strategy for a particular class or group of *goods or services*. At the core of the commodity council concept is the inclusion of knowledgeable commodity experts, as well as good representation from the customer base. The council works with an acquisition executive designated to approve the sourcing strategy and execute the contract or contracts.

Air Force guidance calls for the sourcing strategy to consider factors such as the number of approved suppliers and scope of effort awarded to each; recommended local and global suppliers; supplier development plans; supplier relationship methods (traditional, strategic alliance, etc.); contract type, length, and terms and conditions; and incorporation of socioeconomic programs. We also recommend incorporating performance-based approaches, measures, and metrics into the overall strategy, as well as into individual contracts.

Performing commodity council functions requires special knowledge, skills, and abilities that are not typically present in acquisition organizations. In an overview of Air Force commodity councils, Jeffrey P. Parsons of the U.S. Army Materiel Command told an Army audience that analysts or experts in market intelligence, supply chains, sourcing supply, and commodities need to be represented on the commodity councils (Figure 2).

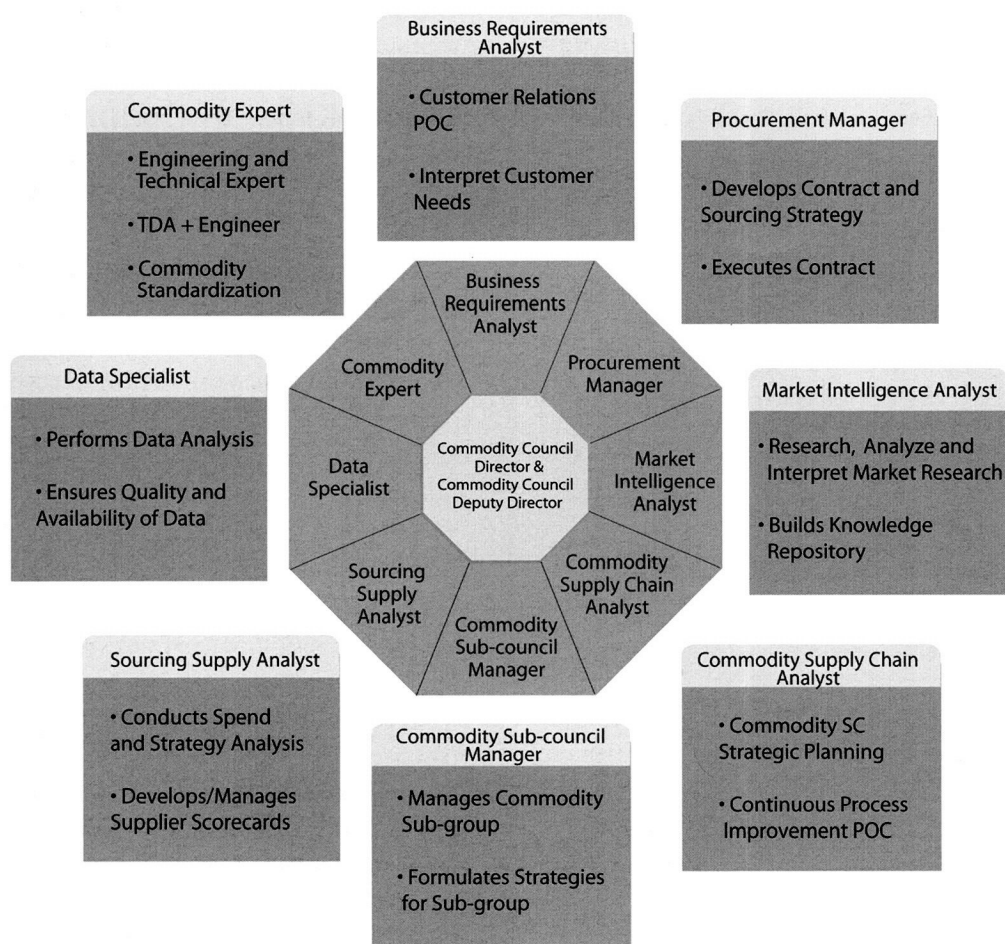
### Commodity Council Functions

The commodity council has the following functions:

- ◆ Initial analysis and start-up
  - ◇ Baseline the current commodity as-is acquisition process.
  - ◇ Identify detailed current costs, both hard and soft.
  - ◇ Identify other baseline metrics.
  - ◇ Create the to-be process and performance metrics for the council's results.
  - ◇ Identify stakeholders.
  - ◇ Develop a communication plan.



## Figure 2. Commodity Council Components



Source: Acquisition Solutions, Inc.

- ❖ Measure current on-hand or on-order demand.
- ❖ Forecast demand and distribution points.
- ◆ Acquisition
  - ❖ Gather market intelligence and conduct market research.
  - ❖ Identify industry cost drivers.
  - ❖ Develop the performance-based sourcing strategy (including supplier diversity in size, socioeconomic factors, and location).
  - ❖ Define objectives and requirements for the acquisition.
  - ❖ Establish the acquisition plan and oversee the acquisition process.
  - ❖ Participate in the source selection process.
  - ❖ Establish supplier relationships.
  - ❖ Develop and issue agency-wide instructions regarding decentralized use of the centralized contract vehicles.
- ◆ Ongoing
  - ❖ Develop annual commodity council plans and progress reports.
  - ❖ Monitor marketplace developments and industry trends.
  - ❖ Monitor customer requirements.
  - ❖ Oversee supplier performance.
  - ❖ Remove and refresh suppliers as needed.
  - ❖ Maintain supplier relationships.
  - ❖ Ensure compliance.
  - ❖ Ensure effective contract management.
  - ❖ Capture the knowledge and experience gained in order to institutionalize the process and ensure its continuing maturation.

The success stories are dramatic. Ken Heitkamp, director of the Air Force IT Commodity Council, spoke at Acquisition Solutions' Client Conference in June 2005. He explained how the council executed an Air Force desktop/laptop commodity strategy that

completed six quarterly enterprise desktop and laptop buys (104,000 units) at a cost avoidance of \$24 million. In addition, the Air Force consolidated thirty-eight Microsoft license agreements into a single enterprise-wide agreement, projecting a cost avoidance of more than \$100 million over six years.

GAO has recognized the Department of Homeland Security (DHS) for its successes: "In the relatively short time since its inception, DHS has demonstrated some successes in implementing a strategic-sourcing program to leverage the department's buying power." For example, DHS's Commodity Council for Weapons and Ammunition competitively awarded two contracts, one to a small business and one to a large, to supply 65,000 pistols in a variety of calibers and sizes to DHS organizational elements over the next five years. Among the results were a doubled warranty period and a 35 percent price reduction (\$1 million cost avoidance). Other price reduction results by commodity include uniforms (8 percent), electricity (14 percent), ammunition (31 percent), and express mail (37 percent). The DHS EMALL for office supplies has achieved 37 percent retail price reduction, 57 percent transaction cost avoidance, and 64 percent small business participation.

DHS notes the following as "strategic sourcing take-aways":

- Spend analysis is complex and labor intensive.
- There are significant change management challenges.
- Senior management buy-in and visibility are essential.
- DHS is exceeding industry benchmarks for savings.
- Strategic sourcing leverages strong and focused cross-functional and cross-departmental collaboration, creating unique synergies.

Consequently, DHS has identified the following critical success factors:

- Strong governance structure
- Significant senior management department buy-in
- Change management strategy
- Reasonable spend analysis approach
- Comprehensive communication plan
- Strategic sourcing skills and process training.

## Conclusion

Strategic sourcing is an important, transformational step for federal acquisition—one that offers the best hope for coping with a reduced acquisition workforce and a burgeoning workload. CAOs have new and broader leadership responsibilities as they seek to change the way the federal government does its acquisition business.

Within the governance structure, the benefits of a commodity council are many. They include leveraging enterprise-wide spending, involving market experts in the development of a performance-based sourcing strategy, improving customer support, reducing costs across the enterprise, eliminating duplication of effort, accelerating delivery responsiveness, developing performance-based management strategies, and forming strong relationships to manage the performance of the selected contractors. The commodity council is an important step toward world-class commercial strategic-sourcing practices.

The OMB directive started the federal government on the road to transforming its procurement function. The establishment of commodity councils will help move procurement from a traditional transaction-based, compliance-oriented, overhead function to a real strategic asset. As the government learns how to adopt strategic-sourcing techniques, it will greatly improve the effectiveness and efficiency of its procurement function. ❖

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