Defense Procurement

DoD-Wide Services Sourcing Program

Strategic Sourcing & Spend Analysis

DoD Procurement Conference

May 27, 2004
Agenda

DoD-Wide Services Sourcing Program Overview – D. Boyd

GAO Overview of Federal Strategic Sourcing Efforts – C. Kirby

Services Commodity Team Process – T. Essig

Product Commodity Team Process – D. Bowman

Acquisition Domain Spend Data Capture – A. Norris

Questions
Currently, DoD is not fully leveraging its opportunities to minimize acquisition costs for services

- Services account for more than half of the DoD’s total spend

- DoD is not leveraging cross functional and cross department opportunities in order to minimize total acquisition costs
  - Purchases are not coordinated across the services
  - Many suppliers have multiple contracts with the department, supplying comparable services at different prices
  - The capabilities of small businesses are not being fully leveraged

- Government agencies are facing more scrutiny in utilizing Commercial best practices in strategic sourcing
What is Strategic Sourcing?

STRATEGIC RELATIONSHIP
- Establish integrated or close relationships with suppliers where both buyer and supplier work together share information, collaborate, and further each partner’s goals

PROCESS IMPROVEMENT
- Identify opportunities to standardize and streamline business processes that will result in improved quality, reduced cycle times, and lower total cost of ownership

VOLUME LEVERAGING
- Aggregate like goods and/or services across organizational units in order to increase negotiation leverage and negotiate better pricing, and terms and conditions

BEST VALUE ANALYSIS
- Evaluate and model all costs and use negotiation tactics that increase transparency and maximize competition

DEMAND MANAGEMENT
- Address factors such as standards, requirements, and policies to reduce costs related to internal demand

Commodity Sourcing Strategy
- Strategic Relationship
- Process Improvement
- Best Value Analysis
- Demand Management
- Volume Leveraging
What Are The Benefits?

- Enhanced performance
- Establishes “win-win” situation for government/contractor
- Enhances ability to manage socio-economic goals
- Allows for more efficient utilization of contracting officer/specialist resources – less time spent doing routine, repetitive activities
- Enhances procurement office status by creating a value-added business management function vice standard “buyer”
- Facilitates requirements collection and definition
- Increases efficiency of procurement process
- Increases customer satisfaction (internal and external)
- Increases visibility of funds expenditure
- Highly trained acquisition personnel (i.e. true business managers)
- Much more …

Summary – benefits far outweigh implementation costs
DWSS Objectives

Program Objectives

- Develop Department-wide cross-functional acquisition strategies in order to improve Total Cost of Ownership for acquired services
- Address improvements in meeting socio-economic goals through the use of strategic sourcing
- Leverage commercial best practices in order to streamline and standardize DoD acquisition business processes
- Improve overall skills of DoD acquisition staff through the utilization of commercial tools and processes

The ultimate goal of the program is to “provide customers throughout the Department [of Defense with services acquired] in the most efficient and advantageous manner.”

“Acquisition of Services Review” Memorandum from Paul Wolfowitz, Deputy Secretary of Defense 2/6/2003
Ideal Strategic Sourcing Information

Acquisition/Contracts
(Contract Writing Systems, DIOR, FPDS)

Business Intelligence System

Requirements Office Projections

Budget

Contract Financial Execution (DFAS)
Success Factors

Cost Drivers Identified for both DoD and Industry

Alignment of DOD Internal Sourcing Processes

Full Spend Visibility including acquisition, budget, financial data

Products or Services specifications can be clearly defined

Strong Competition
Commercial Success Factors

- Standardization of service categories
- Electronic catalogues
- High level of automation – reduced contracting visibility/action
- Mandatory utilization – justice for maverick spenders
- Rationalized vendor base
- Strong senior governance
- Skilled commodity team members conversant in all facets of the commodity
What is the Process?

- “Ad-hoc” to date – IPT and Administrative Services Commodity Team underway
- Short Term – Develop the process – FY04
  - Firmly establish the initial commodity teams, IPT and Governance Board each with their own charter
  - Commodity teams follow a generic, but extremely detailed, process utilizing commercial best practices
    - Concept of Operations document being developed to document the process
  - Develop in-house skills necessary to accomplish all facets of the sourcing process
  - Develop a thorough communications plan (both internal and external)
- Long Term – Institutionalize the process and expand to all facets of services – FY05 and beyond
  - Develop automated processes (i.e. coordinate with Acquisition Domain)
  - Implement appropriate business rules
  - Establish teams for numerous service categories

The “process” is extremely detailed and extensive involving ROI evaluations on total cost of ownership. The level of analysis goes far beyond any level normally conducted by contracting personnel and requires cyclical review and analysis to maintain peak operating efficiency.
## Phase I Service Commodity Groups

<table>
<thead>
<tr>
<th>Construction Services</th>
<th>IT/Automation</th>
<th>Facilities</th>
<th>Medical/Health Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Architect/Civil Engineering Services</td>
<td>• Systems Analysis/Development</td>
<td>• Facilities Maintenance/ Management</td>
<td>• Lab Testing Services</td>
</tr>
<tr>
<td>• General/Buildings/Facilities</td>
<td>• Telecommunications/Networking</td>
<td>• Purchase/Lease/Rental of Facilities</td>
<td>• Medical Services</td>
</tr>
<tr>
<td>• Military Structures/Facilities</td>
<td>• Systems Acquisition Support</td>
<td>• Operation of Government Facilities</td>
<td></td>
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<td></td>
<td>• Data/Security Services</td>
<td>• Energy/Utilities</td>
<td></td>
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<tr>
<td></td>
<td>• Miscellaneous/General IT Services</td>
<td></td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equipment Management</th>
<th>Natural Resources/Environ.</th>
<th>Prof./Admin. Services</th>
<th>Education/Training</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Maintenance/Repair – Defense</td>
<td>• Drilling/Exploratory Services</td>
<td>• Program Management</td>
<td>• Technical/Scientific/Mgmt.</td>
</tr>
<tr>
<td>• Maintenance/Repair – Other</td>
<td>• Environmental Cleanup/Removal</td>
<td>• Engineering/Technical Services.</td>
<td>Training</td>
</tr>
<tr>
<td>• Installation – Defense</td>
<td>• Misc. Resource &amp; Conservation Svcs.</td>
<td>• Management/Advisory Services</td>
<td>• Educational Services</td>
</tr>
<tr>
<td>• Installation – Other</td>
<td>• Misc. Environmental Services/Support</td>
<td>• Administrative Support Services</td>
<td>• Tuition/Fees</td>
</tr>
<tr>
<td>• Lease/Rental – Defense</td>
<td></td>
<td>• Miscellaneous Professional Svcs.</td>
<td>• Training Development</td>
</tr>
<tr>
<td>• Lease/Rental – Other</td>
<td></td>
<td></td>
<td>• Miscellaneous Education Svcs.</td>
</tr>
<tr>
<td>• Technical Rep. Srvcs – Defense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Technical Rep. Srvcs – Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Quality Control/Insp. – Defense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Quality Control/Insp. - Other</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transportation/Travel</th>
<th>Special Studies/Analysis</th>
<th>Misc/Other Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cargo/Freight/Transport Services</td>
<td>• Environmental/ Agricultural</td>
<td>• Social Services</td>
</tr>
<tr>
<td>• Personnel Transport/Lodging</td>
<td>• General Sciences</td>
<td>• Salvage Services</td>
</tr>
<tr>
<td>• Miscellaneous Travel Services</td>
<td>• Financial/ Management/ Advisory</td>
<td>• Photo/Mapping/ Graphics Svcs.</td>
</tr>
<tr>
<td></td>
<td>• Defense/ Military/ Security</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Miscellaneous Studies</td>
<td></td>
</tr>
</tbody>
</table>
Multi-tiered Governance Structure

Governance Structure for DWSS

- Oversight and strategic direction for program
- Coordinate and oversee commodity teams
- Manage and execute day-to-day activities for program
- Provide expertise and support PMO and commodity teams in execution of activities

Governance Board

Integrated Process Team

PMO

Contractor Team

Commodity Team

- Administrative Services CT
- Misc IT Services CT
- Commodity Team 3

Led by:
- Tom Essig, DON (DASN ACQ)
- Army
- Censeo Consulting (Prime)
- Booz Allen (Sub)
- D&B (Sub)
Using Spend Analysis to Take a Strategic Approach to Procurement

DoD Procurement Conference
May 27, 2004
Outline

• Strategic approach to procurement — a best practices perspective
• Spend analysis—the first step in adopting a strategic approach
• Spend analysis best practices—a road map
• Federal agencies’ spend analysis efforts
Strategic Approach to Procurement – a Best Practices Perspective

Benefits and Results:

- Clearly pays off in reduced total costs
- Improves supplier performance and agency operations
- Eliminates duplicative sourcing and contract administration
Spend Analysis: the First Step in Adopting a Strategic Approach

Spend analysis best practices overview

- Automation
- Extraction
- Supplemental information
- Organization of data
- Analysis and strategic goals
Spend Analysis Best Practices – a Road Map

Obtain Knowledge
• Data automatically compiled in central repository
• Data covers entire agency
• Data extracted from vendor payment and procurement systems
• Add supplier diversity to data
• Establish uniform commodity codes & supplier names
• Classify spend data by commodity
• Classify suppliers by strategic importance

Use Knowledge
• Top leadership sets goals
• Establish commodity manager and team structure
• Support strategic sourcing projects and estimate savings
• Address supplier diversity goals and objectives
• Monitor compliance with new contracts
• Measure actual savings, other benefits, communicate results
Federal Overview

- Areas GAO addressed in completed work
  - DOD services acquisitions
  - DOD procurement of commercial satellite services
  - Postal Service supply management initiatives

- Areas GAO addressing in ongoing work
  - Department of Veterans Affairs
  - Department of Health and Human Services
  - Department of Agriculture
  - Department of Homeland Security
Related GAO Reports

www.gao.gov

Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition, GAO-03-935 (Sep. 10, 2003)


Best Practices: Taking a Strategic Approach Could Improve DOD’s Acquisition of Services, GAO-02-230 (Jan. 18, 2002)


Contract Management: Taking a Strategic Approach to Improving Services Acquisition, GAO-02-499T (Mar. 7, 2002)

Contract Management: Trends and Challenges in Acquiring Services, GAO-01-753T (May 22, 2001)
Contact Info

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Acquisition and Sourcing Management
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kirbyc@gao.gov
Defense Procurement

DoD-Wide Services Sourcing Program

Services Commodity Team Process

Thomas W. Essig
Director, Program Analysis and Business Transformation
Deputy Assistant Secretary of the Navy (Acquisition Management)
Topics

- DON Spend Analysis

- Services Strategic Sourcing Pilot
DON Spend Analysis: The supply base for many “scalable” services is highly fragmented

Note: Total services is equal to $4.49B (spending in Engineering, Logistics, Program & General Management Services ($3.86B) plus Training, Facilities Management and Other Services($0.63B))

This page details the $1.5B of spending within these two categories that would lend to scale savings
Listing of major contractors in each service category found in Appendix

Source: NAVSEA, NAVAIR, SPAWAR, MARCOR Total FY2002 DD350 Data; Booz Allen Hamilton Analysis
There are at least 10 separate contracting offices among the four DON SYSCOMS “letting” contracts

‘Scalable’ Engineering, Logistics, Program & General Management Services (Total = $939M)

<table>
<thead>
<tr>
<th>Total Contracting Offices</th>
<th>Total Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>$636M</td>
</tr>
<tr>
<td>15</td>
<td>$256M</td>
</tr>
<tr>
<td>16</td>
<td>$39M</td>
</tr>
<tr>
<td>13</td>
<td>$8M</td>
</tr>
</tbody>
</table>

‘Scalable’ Training, Facilities Management & Other Services (Total = $556M)

<table>
<thead>
<tr>
<th>Total Contracting Offices</th>
<th>Total Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>$251M</td>
</tr>
<tr>
<td>3</td>
<td>$60M</td>
</tr>
<tr>
<td>22</td>
<td>$166M</td>
</tr>
<tr>
<td>17</td>
<td>$79M</td>
</tr>
</tbody>
</table>

Note: Total services is equal to $4.49B (spending in Engineering, Logistics, Program & General Management Services ($3.86B) plus Training, Facilities Management and Other Services($ .63B))

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Source: NAVSEA, NAVAIR, SPAWAR, MARCOR Total FY2002 DD350 Data; Booz Allen Hamilton Analysis
DON Spend Analysis: Factors that inhibit strategic sourcing

- Multiple problems with DD350 System
  - Coding and data entry errors
  - Insufficient detail
  - Incomplete data
- Socio-economic considerations
- Geographic dispersion of work
- No objective measure of savings
- Existing SYSCOM level consolidated contracts
- Organizational/cultural differences
Topics

- DON Spend Analysis
- Services Strategic Sourcing Pilot
The high-level strategic sourcing process for services is similar to that of goods...

**Strategic Sourcing Process – High Level Overview**

1. **Profile Commodity**
   - Assess and prioritize opportunities based on a thorough department-wide spend analysis.
   - Develop detailed profile of commodity including spend profile & specifications.

2. **Conduct Supply Market Analysis**
   - Conduct market analysis to identify industry trends, supply & demand levers, potential new suppliers, negotiation levers, and available contract vehicles.

3. **Develop Commodity Strategy**
   - Develop organization-wide commodity acquisition strategy based on Commodity Profile & Supply Market Analysis.

4. **Issue RFx & Negotiate**
   - Develop and issue RFx based on sourcing strategy, conduct negotiations, evaluate proposals, and award contract(s).

5. **Implement & Manage Performance**
   - Implement contract, process and policy changes; continually measure, track, and manage performance.

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Proprietary Information, Censeo Consulting Group.
As an initial step of the Spend Analysis, a preliminary Commodity Structure has been developed for Administrative Support services.

**Definition:** Administrative/Support Services is comprised of support functions such as translation, courier services, and word processing.

- **Clerical Support Services**
  - Document Preparation
  - Stenographic Services
  - Transcription
  - Information Retrieval
  - Paper Shredding Services
  - Filing Services
  - Secretarial Support Services
  - Library Services
  - Other Clerical Support Services

- **Mail and Courier Services**
  - Courier and Messenger
  - Mailing and Distribution
  - Packaging Services
  - Post Office Services
  - Material Management
  - Other Mail and Courier Services

- **Language Support Services**
  - Translation and Interpreting Services
  - Other Language Support Services

- **Specialized Services**
  - Court Reporting
  - Credit Reporting
  - Personal Property Management Services

- **Other Admin Services**
  - Other Administrative Support Services (R699)

Is this the right commodity structure?
Participation and collaboration with customers from the outset is critical

- Place SMEs and stakeholders on the core sourcing team
- If possible, have a stakeholder lead the team
- Identify opportunities to establish credibility with the users in purchasing services
- Bring SMEs into the procurement organization to act as buyers/commodity managers for services

**Participate**

**Educate**

- Educate stakeholders on the Strategic Sourcing process
- Ensure procurement staff is educated and knowledgeable on the Services under consideration
- Educate potential suppliers on the scope and specifications that they will be bidding on

**Co-locate (if necessary)**

- Place procurement professionals within organizations to foster communication and understanding of service requirements
- Bring SMEs into the procurement organization to act as buyers/commodity managers for services
For certain spend groups, analyzing the current Total Ownership Cost ("TOC") can reveal significant improvement opportunities.

**TOTAL COST OF OWNERSHIP (TCO) ELEMENTS**

- **Supplier price**: 100%
- **Landed cost**: 125%
- **Carrying cost**: 150%
- **Administrative cost**: 200%

- The applicability of various TOC elements varies greatly by commodity.
- Internal procurement processes and practices also impact TOC elements.

Proprietary Information, Censeo Consulting Group.
At the conclusion of Step 1, the team should have a detailed understanding of what we buy from whom with emphasis on detailed specifications and requirements.

### Overall Volumes – Historical and Forecast

<table>
<thead>
<tr>
<th>Units</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant 2 Supplier B</td>
<td>10,000 units</td>
</tr>
<tr>
<td>Plant 1 Supplier A</td>
<td>2000 units</td>
</tr>
<tr>
<td>Plant 2 Supplier A</td>
<td>100 units</td>
</tr>
<tr>
<td>Plant 2 Supplier B</td>
<td>200 units</td>
</tr>
</tbody>
</table>

### Suppliers and Locations

- **Plant 1**: Supplier A - 100 units
- **Plant 2**: Supplier B - 2000 units
- **Plant 1**: Supplier A - 100 units
- **Plant 2**: Supplier B - 200 units

### Supplier Performance

- Quality
- Delivery
- Value-added

### Process Requirements

- Day-to-day procurement
- Logistics/ transportation

### Pricing

- Applicable quantity/timeframe
- Formulas
- Scope of products/services
- Assumptions
- Contracts

### Specifications

- Locations
- Skill Set
- Security Requirements
- Volume
- Socio-Economic

Proprietary Information, Censeo Consulting Group.
Step 2, Conduct Supply Market Analysis, seeks to develop a thorough understanding of the supply market and suppliers’ business issues.

Market Size Profile:
- Industry Sector:
- Value ($m): $X m
- Total Supplier Base: $XX m
- Number of Supplies:
  - > $X m
  - > $XX m

Market Financial Performance:
- Market Size (Volume)
- Market Size (Net Margin)
- Top 5 Suppliers (and market share)

Industry Capacity Utilization:

Supplier Capabilities:
- Expertise Area
- Match with Customer Requirements
- Certifications
- Contracting Vehicles
- Socio-Economic Status...

Summary of Supply Market Trends & Drivers:
- Trends:
- Drivers:

Proprietary Information, Censeo Consulting Group.
Developing a detailed cost structure and cost drivers for suppliers can aid in identifying possible negotiation levers.

<table>
<thead>
<tr>
<th>DRIVER</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale/Utilization</td>
<td>• Size of buy (number of temp days contracted) drives markup percentage.</td>
</tr>
<tr>
<td></td>
<td>• Duration of buy (number of days contracted per temp worker) drives markup percentage.</td>
</tr>
<tr>
<td></td>
<td>• Scale of supplier within the category of temps drives recruiting cost and overhead costs (sales, general administration, systems, etc.).</td>
</tr>
<tr>
<td>Productivity</td>
<td>• Labor productivity—knowledge of Company XYZ’s processes and systems.</td>
</tr>
<tr>
<td></td>
<td>• Managing efficiency—managing/admin./coaching cost per temp worker.</td>
</tr>
<tr>
<td>Customer Requirements</td>
<td>• Service level (order response time, quality failures, etc.).</td>
</tr>
<tr>
<td></td>
<td>• Temp work specifications (people spec, prescreens, degree of specialization).</td>
</tr>
<tr>
<td>Automation/IT-systems</td>
<td>• Degree of automation.</td>
</tr>
<tr>
<td></td>
<td>• IT-development/adaptations to client needs (specs).</td>
</tr>
<tr>
<td></td>
<td>• Geographic reach of the agency network.</td>
</tr>
<tr>
<td>Labor Rates</td>
<td>• Local differences in labor rates due to regulatory environment.</td>
</tr>
<tr>
<td></td>
<td>• Wide spread temp agency net.</td>
</tr>
<tr>
<td>Geographic Reach</td>
<td>• Geographic reach of the agency network is differentiator among key players.</td>
</tr>
<tr>
<td></td>
<td>• Network infrastructure, people.</td>
</tr>
</tbody>
</table>

**TEMP SERVICES COST STRUCTURE**

![Diagram showing cost structure breakdown]

**Example Insight**

The most important drivers of cost for temp services firms are volumes and customer specifications.
Frameworks are useful for providing guidance for developing supply market understanding and uncovering areas of opportunity.

- Framework for understanding what drives competitive behavior in a supply market
- Helps us understand whether the “balance of power” rests with suppliers or with buyers
- Analysis of these forces will help us predict supplier’s receptivity for various sourcing approaches

**PORTER’S 5-FORCES ANALYSIS**

| Framework for understanding what drives competitive behavior in a supply market |
| Helps us understand whether the “balance of power” rests with suppliers or with buyers |
| Analysis of these forces will help us predict supplier’s receptivity for various sourcing approaches |

**Supply Market Value Chain Analysis**

- **Example**
  - Individual Admin Personnel
  - Small Temp Firms
  - Vendor Mgmt Firms
  - Large National Firms

- Value chain analysis may reveal opportunities for sourcing at a different position within the value chain.
Various strategies beyond basic spend consolidation must be evaluated in order to realize the full benefit of strategic sourcing.
Final Comments

- Centralized Sourcing, Decentralized Execution
- Web-enabled

“I am challenging DoD’s acquisition community…to take advantage of this opportunity to initiate dramatic improvements to the procurement process… I request you establish a concurrent effort in your respective organizations and interact with our task force as we generate value-added changes to the rules and our processes.”

Mr. Michael W. Wynne
Principal Deputy Under Secretary (AT&L)
Feb 19, 2003
What is e-FSC?

TRT: 2:59
Final Comments

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Feb 19, 2003
DoD Procurement Conference

Commodity Councils 101

Dan Bowman
Chief, Procurement Transformation Division
Deputy Assistant Secretary (Contracting)
27 May 2004

U.S. AIR FORCE
Transformation Begins with Changing Behavior

Strategic Activities
- Market knowledge
- Supply base management
- Commodity strategy
- Risk management
- Sourcing strategy
- Supplier capability assessment
- Strategic negotiation
- Supplier selection
- Supplier development
- Establish performance metrics
- Supplier performance evaluation/reporting

From transactional to strategically focused

Tactical Activities
- Commercial (tactical) negotiation
- Order processing

Air Force Contracting – Expeditionary – Agile – Innovative
Intro to Commodity Councils

Centralized Strategy …decentralized execution

Commodity Council = cross-functional sourcing team

Commodity Council

Technology Enabled Execution

Leveraged Buying

Characteristics: Executive-level endorsement

Business Intelligence

Collaborative Commerce

Corporate Level Strategy

Commodity = segmented goods or services.

Does not imply an expendable or non-complex item category of expendable or non-complex items
Commodity Council Objectives

- Develop strategies for the Air Force at the Enterprise Level
  - Establish socio-economic strategy
  - Establish commodity support strategy
  - Establish business rules
- Demonstrate measurable reduced acquisition cost
- Ensure alignment between Air Force policy and commodity strategy
- Ensure CC product agreements comply with standards set for the enterprise
- Incentivize CC strategy compliance
- Achieve stakeholder buy-in and utilization of CC strategy
- Fulfill commodity user needs
- Rationalize the vendor base to obtain top performing vendors, highest quality products, at the best value for each commodity category
- Reduce the number of redundant contracts per vendor
Each Commodity Council will have adequate cross-functional representation and will utilize a standardized process.
What's Different?:
The Commodity Council Process

Deliverables
• Demand Plan
• Cost Estimate
• Approved Spend Plan

• Advance forecasting to get in FRONT of AF-wide requirements

Key Stakeholders

Monitor and Continuously Improve

Rollout Strategy

Establish Contractual Instruments

Approve Strategy

Small Business Strategy
• Review Current SB Participation
• Address SB at each stage

Deliverables
• Commodity Acquisition Management Plan

• AF-wide commodity strategy – Decentralized execution
Information Technology Commodity Council (ITCC) – 2003 EOY Buy

- Image Consolidation
- Configuration Simplification – 1 AF Desktop Configuration per buy
  - 2.6 GHz, P4, 512 MB RAM, 80 GB HD, CD Burner, KB w/CAC reader built in
  - $20M from 6 MAJCOMs pooled to buy 29,154 desktops instead of 17,360 that would have been purchased individually
  - New leveraged buy price = $648.00 (instead of $1129.57)
- Current ITCC efforts (spirals) will create strategy to acquire
  - Printers/Scanners/Faxes (Digital Printing and Imaging)

“the Air Force bought computers at a 30 percent discount by buying in quantity…And it’s a strategy that we plan to use more” John Gilligan AF CIO
Future Councils

■ AF Medical Services CC (Kick off 16 Mar 04)
  ■ AFMC/SG and AFMLO are leading effort to stand up AFMS CC for professional services, clinical support services, facilities and mnx support, and contingency services
  ■ AFPEO/CM advising CC stand-up process
  ■ Center of Excellence at WPAFB
  ■ SAF/AQC and AFMC/SG to be Commodity Strategy Officials (CSOs)

■ First AFMSCCC spirals
  1. Nursing services
  2. Utilization Management Services
  3. Primary Care Optimization
  4. Medical Administration
Future Councils (cont’d)

- **Force Protection CC (Kickoff March 4, 2004)**
  - Demobilization of Army personnel currently securing AF gates and visitor centers (vehicle inspection)
  - Other potential strategy spirals include armored vehicles and body armor
  - AF/XOF, AFPEO/CM, AQC and AETC/LGC forming FPCC
  - Center of Excellence and FPCC at Lackland AFB
  - AF/XOF and SAF/AQC to be CSOs

- **Office Supplies CC**
  - Currently conducting spend analysis to determine potential spirals
  - Center of Excellence tentatively at Wright-Patt AFB, OH
Future Councils (cont’d)

AFMC Purchasing & Supply Chain Mgmt Pathfinders

- Each ALC has identified 1 ‘pathfinder’ proof of concept commodity council
  - Landing gear/tires/brakes (Ogden); Aircraft Accessories (Ok City); Support Equip (Warner-Robins)
- 5 other councils to be formed – 8 Product Groups will 86% of AFMC spend

<table>
<thead>
<tr>
<th>Commodity Group</th>
<th># Supplier CAGEs</th>
<th># NIINs</th>
<th># Contracts</th>
<th># Of Contract Actions</th>
<th>Total Contract Spend</th>
<th>% Of Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft Engines</td>
<td>198</td>
<td>2,452</td>
<td>1,066</td>
<td>3,067</td>
<td>$4,081,653,689</td>
<td>38.2%</td>
</tr>
<tr>
<td>** Aircraft Accessories</td>
<td>369</td>
<td>2,888</td>
<td>1,561</td>
<td>2,213</td>
<td>$808,865,751</td>
<td>7.6%</td>
</tr>
<tr>
<td>Aircraft Structural</td>
<td>217</td>
<td>2,008</td>
<td>811</td>
<td>1,171</td>
<td>$542,980,071</td>
<td>5.1%</td>
</tr>
<tr>
<td>Electronics &amp; Comm</td>
<td>753</td>
<td>8,719</td>
<td>3,246</td>
<td>5,525</td>
<td>$1,629,478,763</td>
<td>15.3%</td>
</tr>
<tr>
<td>Secondary Power Sys</td>
<td>29</td>
<td>134</td>
<td>108</td>
<td>123</td>
<td>$386,215,933</td>
<td>3.6%</td>
</tr>
<tr>
<td>Instruments</td>
<td>526</td>
<td>2,277</td>
<td>1,694</td>
<td>2,156</td>
<td>$545,389,883</td>
<td>5.1%</td>
</tr>
<tr>
<td>** Landing Gear</td>
<td>134</td>
<td>1,024</td>
<td>917</td>
<td>1,158</td>
<td>$540,576,629</td>
<td>5.1%</td>
</tr>
<tr>
<td>** Spt Eqt-Grd Serv/Trans</td>
<td>419</td>
<td>1,668</td>
<td>425</td>
<td>546</td>
<td>$602,949,884</td>
<td>5.6%</td>
</tr>
<tr>
<td>Totals</td>
<td>21,170</td>
<td>9,828</td>
<td>15,959</td>
<td></td>
<td>$9,138,146,603</td>
<td>85.6%</td>
</tr>
</tbody>
</table>
Industry Day held 23 Jan 03
- 39 companies attended (24 SB)

Two RFPs were issued
- Small business set-aside (10 proposals received)
- Non set-aside

Results:
- 7 awards to small business, Feb 04
  - 24 NSNs
  - $18M (2 years) 3 year option unpriced
- 1 award to foreign, Mar 04
  - 13 NSNs
  - $11M (2 years) 3 year option unpriced
Acquisition Spend Analysis Pilot Overview

Anna Norris
Booz Allen & Hamilton
Agenda

- Key Technical Drivers
- Acquisition Spend Analysis Pilot Introduction
- Duration and Participants
- Pilot Architecture
- Potential Business Value
- Net-Centric Tenets
- Spend Data Elements
- Conclusion
  - Impact of Effective Spend Data Management in Strategic Sourcing Program
‘Net-Centricity’ is the term for the Department’s vision for supporting Network Centric Warfare using information advantage as its basis

● Net-Centricity (noun): The paradigm for using and providing discoverable information and services; building or enhancing capabilities through the integration of networked services, and actively sharing and collaborating regardless of time and place.

● Net-Centric (adjective): Relating to or representing the attributes of Net-Centricity.
Combined with demands of modern warfighting, the changing face of technology is reshaping the Defense industry and requiring a new level of innovation and speed to capability.

- Applications need to be developed more quickly and at lower cost and risk.
- Applications need to be “born joint”.
- Applications must be able to leverage all available information – bandwidth constraints must recede.
- The cost and risk of traditional System Integration activities must cease to be a constraint.
DepSecDef directed establishment of an IT investment fund to accelerate net-centric business transformation & President’s Management Agenda: RAI-NC

- Rapid Acquisition Incentives – Net Centricity (RAI-NC) will fund promising pilot projects that will:
  - Support advancement of Net-centric tenets & transformation
  - Field business case-driven proof of concept pilot projects
  - Provide pilots that promote interoperability and are capable of being scaled into DoD Enterprise solutions

- Acquisition Spend Analysis Pilot selected as top pilot among 124 submissions.
Acquisition Spend Analysis Pilot Introduction

- **Business Problem**
  - The DoD currently has **limited insight** into what it buys and from whom it buys at the enterprise level
  - Each military service and agency procures goods and services across the Department, with **little coordination** between procurement offices that are purchasing the same or similar services
  - Existing spend information resides in numerous **disparate applications** located throughout the Department

- **Acquisition Spend Analysis Pilot Solution Objectives**
  - Develop a net-centric spend analysis capability that can be scalable across the DoD
  - Prove the possibility to reduce the complexity of data integration across the DoD
  - Demonstrate key net-centric attributes by pulling data from disparate data sources, mapping and transforming the data to a common model, and producing DoD enterprise spend reports
  - Increase the amount of information and automate the data collection used to support the DoD-Wide Services Sourcing Program
Acquisition Spend Analysis Pilot - Duration and Participants

- **Duration**
  - The pilot duration is 11 months, ending in November 2004
- **Participants**

  - **Acquisition Governance Board (AGB)**
    - Chairperson – Ms. Deidre Lee
  - **Joint Acquisition E-Business Oversight Board (JAEBOB)**
    - Chairperson – Mr. Mark Krzysko

  **JOINT WORKING GROUP**

  - **AT&L, DPAP**
  - **Army**
    - Tom Evans
  - **Navy**
    - LCDR Hogenmiller
  - **Air Force**
    - CAPT David Wilson
  - **MDA**
    - Barbara Forcier
Acquisition Spend Analysis Pilot - Architecture
## Acquisition Spend Analysis Pilot - Potential Business Value

### Potential Return in Terms of Financial Value, Strategic Value and Technical Value

<table>
<thead>
<tr>
<th>Financial Value</th>
<th>Strategic Value</th>
<th>Technical Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Near-term</strong></td>
<td><strong>Near-term</strong></td>
<td><strong>Near-term</strong></td>
</tr>
<tr>
<td>- Avoid service specific investments in redundant capabilities by creating an enterprise spend intelligence service</td>
<td>- Supports the Acquisition Domain’s vision of becoming an innovative and strategic Acquisition enterprise focused on efficient and cost-effective delivery of the best possible capabilities that enable the Warfighter to succeed</td>
<td>- Automate the spend data collection process</td>
</tr>
<tr>
<td><strong>Long-term</strong></td>
<td><strong>Long-term</strong></td>
<td><strong>Long-term</strong></td>
</tr>
<tr>
<td>- Improve DoD’s ability to achieve socioeconomic goals</td>
<td>- Strengthen cross-Component structures and processes</td>
<td>- Prove <em>net-centric concepts</em></td>
</tr>
<tr>
<td>- Better leverage budgeted dollars available for the procurement of goods and services</td>
<td></td>
<td>- Enable a repeatable process with better quality data to serve as foundation for strategic sourcing opportunity identification</td>
</tr>
</tbody>
</table>

**Long-term**

- Better meet warfighter acquisition needs
- Improve vendor / supplier management
- Increase acquisition efficiency as a response to a future reduced workforce
- Apply net-centric lessons learned to future Acquisition IT projects
- Allow unbiased endorsement of future state architecture
The Following are Key Enterprise IT Components that must be Employed to Demonstrate Net-Centricity

<table>
<thead>
<tr>
<th>Title</th>
<th>Description</th>
<th>Pilot Metric</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet Protocol (IP)</td>
<td>Data packets routed across network, not switched via dedicated circuits</td>
<td>System users will be able to “pull” spend data when it is needed, in the form it is needed, via web services technologies</td>
</tr>
<tr>
<td>Only handle information once (OHIO)</td>
<td>Data posted by authoritative sources and made visible, available, usable through web services to accelerate decision-making</td>
<td>Pilot will reuse existing data repositories from the Air Force and Army</td>
</tr>
<tr>
<td>Post in parallel</td>
<td>Data available on the net as soon as it is created</td>
<td>Data tagged and posted before processing as soon as it is available in the Army and AF data warehouses</td>
</tr>
<tr>
<td>Smart pull (vice smart push)</td>
<td>Applications encourage discovery; users can pull spend data directly from the net</td>
<td>Data stored in public space and advertised (tagged) for discovery</td>
</tr>
<tr>
<td>Data centric</td>
<td>Data separate from applications; apps talk to each other by posting data</td>
<td>Metadata registered in DoD Metadata Registry</td>
</tr>
<tr>
<td>Application diversity</td>
<td>Users can pull multiple apps to access same data or choose same app (e.g., for collaboration)</td>
<td>Apps posted to net and tagged for discovery in multiple applications</td>
</tr>
<tr>
<td>Dynamic allocation of access</td>
<td>Trusted accessibility to net resources (data, services, apps, people, collaborative environment, etc.)</td>
<td>Access assured for authorized users; denied for unauthorized users</td>
</tr>
</tbody>
</table>
ASAP-TS will be “pulling” in the following data elements to produce seven pre-defined reports as well as allow ad hoc querying:

<table>
<thead>
<tr>
<th>Contract</th>
<th>Vendor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Number</td>
<td>Vendor DUNS</td>
</tr>
<tr>
<td>Total Contract Obligated Value</td>
<td>Government Agency</td>
</tr>
<tr>
<td>Bundled Contract Code (Y/N)</td>
<td>CAGE Code</td>
</tr>
<tr>
<td>Performance-Based Service Contract (Y/N)</td>
<td>Vendor Name</td>
</tr>
<tr>
<td>Multiyear Contract (Y/N)</td>
<td>Vendor Division Name</td>
</tr>
<tr>
<td>Total Multiyear Value [Enter Whole Dollars Only]</td>
<td>Vendor City</td>
</tr>
<tr>
<td>Solicitation Number</td>
<td>Vendor State</td>
</tr>
<tr>
<td>Type of Solicitation</td>
<td>Vendor Zip Code</td>
</tr>
<tr>
<td>Date Solicitation Issued</td>
<td>Vendor Country</td>
</tr>
<tr>
<td>Requisition/Purchase Number</td>
<td>Taxpayer Identification Number</td>
</tr>
<tr>
<td>Funding Appropriation Line</td>
<td>Parent Taxpayer Identification Number</td>
</tr>
<tr>
<td>DoD Claimant Program Code</td>
<td>Parent Name</td>
</tr>
<tr>
<td>Modification ID</td>
<td>Type of Entity</td>
</tr>
<tr>
<td>Modification Reason Code</td>
<td>Women-Owned Business</td>
</tr>
<tr>
<td>Task/Delivery Order Number</td>
<td>Ethnic Group</td>
</tr>
<tr>
<td>Contract/Order Award Date (effective date)</td>
<td>Veteran-Owned Small Business</td>
</tr>
<tr>
<td>Contract/Order Release Date (signature date)</td>
<td>Subcontracting Plan</td>
</tr>
<tr>
<td>Contract Type</td>
<td>Size of Small Business</td>
</tr>
<tr>
<td>Indefinite Delivery Contract Type</td>
<td>Contingency, Humanitarian, or Peacekeeping Operation Indicator</td>
</tr>
<tr>
<td>Indefinite Delivery Contract Use</td>
<td>Contract Line Item</td>
</tr>
<tr>
<td>Multiple or Single Award Indefinite-Delivery Contract</td>
<td>CLIN Ship To Address (Code Only)</td>
</tr>
<tr>
<td>Indefinite-Delivery Contract Ordering Period Ending Date</td>
<td>City or Place and State or Country Name</td>
</tr>
<tr>
<td>Contracting Service/Agency</td>
<td>CLIN Payment Will Be Made By (Code Only)</td>
</tr>
<tr>
<td>Contracting Office Code</td>
<td>CLIN Number</td>
</tr>
<tr>
<td>Contracting Office Name</td>
<td>CLIN Base or Option Code</td>
</tr>
<tr>
<td>Contracting Office City</td>
<td>CLIN Description</td>
</tr>
<tr>
<td>Contracting Office State</td>
<td>CLIN FSC</td>
</tr>
<tr>
<td>Contracting Office Zip</td>
<td>CLIN NAICS</td>
</tr>
<tr>
<td>Contracting Officer Name</td>
<td>CLIN UNSPSC</td>
</tr>
<tr>
<td>Requesting Office Code</td>
<td>CLIN Information Technology Products and Services Type</td>
</tr>
<tr>
<td>Requesting Office Name</td>
<td>CLIN Part Number</td>
</tr>
<tr>
<td>Requesting Office City</td>
<td>CLIN Quantity</td>
</tr>
<tr>
<td>Requesting Office State</td>
<td>CLIN Unit of Issue</td>
</tr>
<tr>
<td>Requesting Office Zip</td>
<td>CLIN Unit Price</td>
</tr>
<tr>
<td></td>
<td>CLIN Obligated Amount</td>
</tr>
<tr>
<td></td>
<td>CLIN Obligation Type (obligation, deobligation, none)</td>
</tr>
<tr>
<td></td>
<td>CLIN Performance/Delivery Start</td>
</tr>
<tr>
<td></td>
<td>CLIN Performance/Delivery End</td>
</tr>
<tr>
<td></td>
<td>CLIN Place of Manufacture</td>
</tr>
</tbody>
</table>
This pilot will produce seven spend analysis reports as well as an ad hoc capability that can be leveraged by strategic sourcing users.

The seven spend analysis business reports for evaluating a commodity and its sub-categories are:

<table>
<thead>
<tr>
<th>Report Name</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Spend</strong></td>
<td>The commodities/subcategories with the larger spend may have a greater potential for strategic sourcing</td>
</tr>
<tr>
<td><strong>Total Number of Contracts</strong></td>
<td>A larger number of initial awards is indicative of a commodity/sub-category with uncoordinated buying and thus may have a greater potential for strategic sourcing</td>
</tr>
<tr>
<td><strong>Average Dollars per Contract</strong></td>
<td>Lower ratios are indicative of uncoordinated buying and therefore may represent the potential for strategic sourcing</td>
</tr>
<tr>
<td><strong>Geographical Dispersion</strong></td>
<td>A large number of buying offices for a geographical service area, the greater the potential for strategic sourcing</td>
</tr>
<tr>
<td><strong>Supplier Concentration</strong></td>
<td>The higher the number of suppliers within a commodity/sub-category, the greater the supplier fragmentation and, therefore, the greater the potential opportunity for strategic sourcing</td>
</tr>
<tr>
<td><strong>Supplier Diversity</strong></td>
<td>The smaller the percentage of dollars associated with small business, the greater the negative impact on diversity goals, and a potential for sourcing</td>
</tr>
<tr>
<td><strong>Total Dollars by Supplier</strong></td>
<td>The higher the spend for a given supplier, the greater the potential for strategic sourcing</td>
</tr>
</tbody>
</table>
The spend analysis capability from this technical solution streamlines strategic sourcing opportunity analysis.

Based on the data pulled in the aforementioned reports, trending charts can be produced as shown below:

61% of DoD’s overall services spend and 47% of contract are concentrated in Facilities, Professional/Administrative Services, and Equipment Management categories.

The top 311 suppliers account for approximately 70 percent of overall services spend.

This data was based on DD350 data for FY02, $66 billion on Services was the baseline spend amount.
In conclusion, **Enterprise Spend Data** underpins key acquisition business strategies including strategic sourcing, purchase volume aggregation, budgeting and planning, performance management, supplier and parts rationalization, compliance and inventory management.

- Infrequent and incomplete access to enterprise spend data results in highly fragmented buying strategies, misguided purchase decisions and missed opportunities for cost savings.

Source: Aberdeen Group, October 2003