

Opening Statement of Chairman Thomas R. Carper
“Strategic Sourcing: Leveraging the Government’s Buying Power to Save Billions”
July 15, 2013

As prepared for delivery:

Last week, the President announced a new management initiative for his Administration, to be led by Sylvia Burwell, the Director of the Office of Management and Budget. The goal of the initiative is to build a better, smarter, faster government. Today’s hearing topic – strategic sourcing – is one that should be central to that initiative.

Strategic sourcing is a process that moves an organization from numerous individual procurements to a broader, aggregate – and, frankly, more thoughtful – approach to achieve savings. As my colleagues have heard me say often, I believe there are three essential elements to solving our nation’s financial challenges. We must address both spending and revenues in a balanced approach. We must rein in the costs of entitlement programs in a way that does not savage the poor or elderly. And through better management of government programs, we deliver better services to the American people at a lower cost.

The U.S. government’s departments and agencies spend over \$500 billion annually to buy goods and services in support of their missions. With that much money at stake, even a small gain in efficiency can save the taxpayers billions of dollars. Strategic sourcing is an example of the kind of low hanging fruit we can grab as we continue to search for ways to reduce federal spending and ensure taxpayer dollars are used prudently. It’s a process that can help move an organization from numerous individual procurements to a broader, aggregate – and, frankly, smarter – approach to achieve savings.

At a basic level, strategic sourcing is really just a fancy way of saying ‘buy in bulk.’ But it also goes beyond that. It involves a careful analysis of spending needs, detailed market analysis to know what is available in the private sector, and a constant and rigorous monitoring of vendor prices and performance to get the best prices and best value. Over the past year, the Government Accountability Office (GAO) has produced two reports for this Committee showing the power of strategic sourcing in the private sector, and its promise for the government sector. The companies that GAO examined rely on detailed data analysis and centralized procurement systems to drive savings. In fact, companies interviewed by GAO reported that they have saved between 4 percent and 15 percent over prior year spending through strategic sourcing. If we applied that rate of savings to the federal government, we would save between \$20 and \$80 billion annually!

So you would think that agencies would rush to adopt strategic sourcing wherever possible. Unfortunately that has not been the case. Last fall, GAO examined four agencies that account for 80 percent of federal contract spending – the Departments of Defense, Energy, Homeland Security and the Veterans Administration. Whereas the private sector companies examined by GAO were managing almost 90 percent of their spending through strategic sourcing, these four agencies, collectively, were managing only 5 percent of their spending through strategic sourcing.

And only a tiny fraction of federal spending is made through the Federal Strategic Sourcing Initiative, which is a project overseen by the Office of Management and Budget and administered by the General Services Administration with a goal of expanding the use of smarter procurement practices across the federal government. Last fall, GAO reported that, in Fiscal Year 2011, only \$339 million out of the total of \$537 billion in contract spending had gone through the Federal Strategic Sourcing Initiative. But GAO also found that even this small use of strategic sourcing had saved \$60 million.

As GAO has noted, federal agencies appear to behave more like medium-sized, unrelated businesses than the largest purchaser in the world – which is what the U.S. government is. Instead of leveraging the buying power of the whole government, federal agencies rely on hundreds of duplicative contracts for commonly used items. And far too often our federal contracting officers pay one price for a product or service without knowing that another federal agency – or even another part of the same agency – is paying a completely different price for the exact same good or service.

Today we will hear from the two individuals in the Administration who are leading the charge to drive the government toward greater use of strategic sourcing – Joe Jordan, who is the Administrator for Federal Procurement Policy at the Office of Management and Budget, and Dan Tangherlini, who is the Administrator of the General Services Administration. We will also hear from Cristina Chaplain, Director, Acquisition Sourcing and Management at GAO, to hear more about GAO's illuminating work on this topic.

I hope that today's hearing will help address several key questions. First, why are agencies not making greater use of strategic sourcing? GAO found that the General Services Administration itself purchased less than one-third of its office supplies through the strategic sourcing contracts. What is holding agencies – even those that know better – back when it comes to this issue?

Second, what is the potential for strategic sourcing in the federal government? We need to acknowledge that much of government procurement supports programs that are unique to the government – weapons systems and space technology, for example. The government may never utilize strategic sourcing to the extent that the private sector does. But even a small increase could save billions of dollars. Mr. Jordan will testify today that the federal government has saved nearly \$300 million since Fiscal Year 2010 through strategic sourcing. The early signs are promising but there is much room for improvement.

Third, I would like our witnesses to respond to criticism that strategic sourcing will crowd out small business vendors. This is a very real concern and I hope that the Administration and Congress can work together to make sure that small businesses have ample opportunity to participate in strategic sourcing. And finally, I hope that this hearing will help chart out a path for the Congress to play a constructive role in pushing agencies to buy smarter and save tax payer dollars.

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