

STATEMENT OF
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COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
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Chairman Carper, Ranking Member Coburn, and members of the Committee, I appreciate the opportunity to appear before you today to discuss the steps that the Administration is taking to deliver more value to the taxpayer through greater use of strategic sourcing. When agencies bring spending under management, they are able to achieve lower costs for administrative and commodity goods and services. Thus, strategic sourcing enables the government to leverage our vast buying power to save money and improve the management of commodity goods. This Administration has challenged agencies to buy smarter by ending unnecessary contracts, reducing duplication, and using the government's buying power to get the same goods and services at lower prices. As a result, agencies have saved billions of taxpayer dollars and strengthened their contracting practices.

In this fiscally constrained environment, we need to do even more to drive unnecessary cost out of the system. We must structure our acquisition planning and requirements development processes to ensure we are taking advantage of our position as the world's largest buyer. To that end, I'd like to share with you some of the actions we have taken to continue to build a stronger strategic sourcing foundation within and among agencies, and discuss recent steps to increase the number of solutions available.

Setting the Foundation for Effective Strategic Sourcing

Strategic sourcing has long been recognized by the private sector and the Government Accountability Office (GAO)¹ as a best practice, and successful companies around the world routinely aggregate demand, drive costs out of the supply chain, and develop supplier relationships that directly benefit the company's bottom line. Federal organizations are often challenged to leverage their spend because agency budgets and acquisition functions tend to be decentralized, procurement information can be difficult to analyze, and there is often a lack of visibility into what other agencies plan to purchase or what they are paying.

¹ <http://www.gao.gov/assets/660/653770.pdf>

To help agencies work through these challenges, the Office of Management and Budget (OMB) issued its first guidance memorandum in 2005 directing agencies to establish internal strategic sourcing programs.² Since then, agencies have taken important steps to establish commodity councils and identify opportunities, and the Chief Acquisition Officers Council partnered with the General Services Administration (GSA) to lead several first-generation Federal Strategic Sourcing Initiative (FSSI) efforts to develop Government-wide solutions for buying common goods and services.

The initial FSSI efforts focused on a small number of efforts – domestic delivery services, office supplies, and telecommunications expense management. Agency participation was modest, but the experience in planning, negotiating, and managing these vehicles was critical. Over the last several years, through a renewed focus on strategic sourcing, follow-on contracts for these and other efforts have shown even greater promise. Government-wide strategic sourcing of office supplies and domestic shipping services has already achieved nearly \$300 million in direct and indirect savings since FY 2010. While we continue to build on these early efforts, the benefits – both in reduced prices, cost avoidance, and better commodity management - are clear:

- Prices undergo continuous monitoring and comparison. For example, the price of a representative group of office supplies – or market basket – was reduced initially on the second office supplies effort (OS2) by over 13% and is re-examined on an ongoing basis to ensure prices stay low.
- Usage data is being provided to the agencies to improve buying behavior and commodity management. For example, shipping information is now available from the government-wide domestic delivery contract (DDS2) that shows when an agency paid for express delivery when ground delivery was less expensive for the same delivery time.
- Small business participation and utilization of other important procurement programs have increased. For example, on the OS2 effort, dollars to small businesses have increased by 9percent compared to pre-strategic sourcing levels, compliance with AbilityOne requirements has improved, and agencies are better able to satisfy their sustainability needs.
- Participation in these efforts also has benefits for contracting officers, program managers, and contracting officer representatives, who can redirect their time and attention to acquiring and managing more mission critical or higher risk contracts.

Concurrently, agency-level strategic sourcing improved since our initial efforts began. For example, the Department of Homeland Security saved over \$386 million in FY 2012 by pooling purchases for a wide range of products across the Federal Emergency Management

²http://www.whitehouse.gov/sites/default/files/omb/procurement/comp_src/implementing_strategic_sourcing.pdf

Agency, the Coast Guard, Customs and Border Protection, and other components. The Department of Commerce has put significant focus on reducing costs and changing behavior to better manage spending. Efforts have resulted in savings of up to 40 percent on personal computers and accessories and almost five million dollars annually by printing double-sided and in black and white only.

Expanding the Use of Strategic Sourcing

As GAO noted in their 2012 report, *Strategic Sourcing – Improved and Expanded Use Could Save Billions in Annual Procurement Costs*,³ agencies have an opportunity to take even greater advantage of this important management tool going forward. To build on our initial steps and increase the use of strategic sourcing across Government, last December OMB called on the largest buying agencies to form the Strategic Sourcing Leadership Council (SSLC).⁴ Led by the Administrator for Federal Procurement Policy, the SSLC is working together to increase the number of strategic sourcing solutions available, help shape policies and processes to reduce the number of duplicative contracts, and improve the Government's commodity management practices. To further strengthen leadership throughout the Government for strategic sourcing, OMB directed all twenty-four of the Chief Financial Officers Act agencies to identify an accountable official to coordinate their agency's internal efforts and to participate in SSLC initiatives.

The SSLC and GSA reviewed over twenty initial commodity areas – totaling approximately \$10 billion in annual spend – to identify those that were best positioned for strategic sourcing over the next two years. These initial commodity areas included information technology, such as desktops and laptops and common software, which represent some of our highest spend areas and are the focus of the PortfolioStat reviews being conducted by OMB's E-government Office.⁵ Other areas included janitorial and sanitation supplies; maintenance, repair, and operations supplies; information services; wireless services and devices; laboratory supplies; and a variety of other commodities that are generally procured in a decentralized manner, are common to most agencies, and for which some basic data were available for analysis.

Teams have been created to analyze each of the initial commodity areas. These teams have developed preliminary commodity profiles to better understand the total federal spend, savings potential, and small business participation. They quantified the degree of fragmentation in the market – both the number of unique vendors in the space and the number of contract actions throughout the Government for the same or similar goods and services. Potential lead

³ <http://www.gao.gov/products/D03318>

⁴ http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-02_0.pdf, The Department of Defense, National Aeronautics and Space Administration, Department of Veterans Affairs, Department of Health and Human Services, Department of Homeland Security, General Services Administration, Department of Energy, and the Small Business Administration make up over 90% of the federal spend.

⁵ <http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-09.pdf>

agencies were identified and any unique market conditions, such as a high number of resellers or highly variable terms and conditions, were noted. For example, through this process the SSLC learned that:

- In 2012, GSA estimated that agencies spent \$1.3B on wireless services and devices using more than 4,000 agreements for 800 different wireless plans resulting in prices that varied greatly for the same level of service. An earlier study by their Integrated Technology Services (ITS) Mobility Program concluded that savings of 13 to 20 percent were possible from strategic sourcing over the next five years.
- Agencies spend about \$600 million per year on janitorial and sanitation supplies in a highly decentralized manner with thousands of purchase card holders acquiring items ranging from toilet paper to hand soap to motorized floor buffers in small quantities. According to a GSA analysis, the savings potential could range from 10 to 20 percent.

The SSLC is working to ensure that the commodity teams are conducting sound analyses, developing appropriate requirements, and establishing effective acquisition strategies to position the Government to get the best deal possible by buying together.

While many of these initial efforts are focused on standing up new government-wide vehicles, there are additional options available that could improve how we buy and manage certain goods and services. For example, driving spending through a smaller number of existing vehicles – such as blanket purchase agreements (BPAs) or government-wide acquisition contracts (GWACs) – provide an opportunity for agencies to take advantage of suitable existing contracts while we get smarter about the commodity. Another aspect involves agencies analyzing demand to better manage what is required.

Commodity teams are also well suited to help identify standardized terms and conditions for government-wide use in agency-specific vehicles. Such standardization has multiple benefits: it allows each agency to reap the benefit of terms and conditions that are considered to be most effective; it helps an agency pool its own resources to secure lower prices and eliminate the administrative cost of maintaining duplicative vehicles; it can also help lower transaction costs for vendors – which can be especially beneficial for small businesses; and finally, standardization may also better position us at the government-wide level for a sourcing event in the future.

Core Characteristics of Strategic Sourcing

While each strategic sourcing solution and commodity is unique, there are several core principles of buying smarter that must be included in government-wide strategic sourcing solutions. For example, the action must:

- reflect the input from a large number of potential users so that the demand, strategy, and commodity management approaches align with customers' needs;
- drive towards getting the Government credit for all sales provided under that vehicle, regardless of payment method, unless the sales are identified with other government contracts;
- include tiered pricing, or other appropriate strategies, at the contract level (not just at the order level) to reduce prices as cumulative sales volume increases;
- require vendors to provide sufficient pricing, usage, and performance data so that we can continuously assess the results of the initiative and look for ways to improve, including reductions in demand that exceeds mission requirements;
- include post award commodity management plan to monitor vendor performance and pricing changes throughout the contract life cycle; and
- baseline small business participation and seek to meet or exceed current levels.

A Commitment to Small Businesses within Strategic Sourcing

I recently testified before the House Small Business Committee⁶ to discuss with Members of Congress and the public how this Administration is committed to increasing small business participation in federal contracting, and working to ensure that competitive small businesses can engage in – and grow through – strategic sourcing. To accomplish this goal, we must take advantage of best practices that promote small business participation and ensure we understand how to reduce barriers to entry in certain commodity areas to allow small businesses to compete. Best practices include:

- conducting effective market research so that small businesses can more easily find potential contracting opportunities and agencies can find capable small businesses;
- engaging industry early in the process to identify ways to improve the requirements or the acquisition process to promote small business participation;
- giving interested sources adequate time and information to respond to requests for proposals; and
- using technology to make doing business with the government easier and less costly.

By actively engaging the small business community in the Office Supplies Strategic Sourcing Solution, GSA, which served as the lead agency for this initiative, increased total dollars going to small businesses from 67 percent prior to implementation of the strategic sourcing solution to 76 through the strategically sourced solution.

⁶ http://smallbusiness.house.gov/uploadedfiles/6_13_13_ofpp_testimony_jordan_hsbcb.pdf

Additional Efforts to Support Transparency

To further support the work that the SSLC and many agencies are doing to promote more strategic sourcing, OFPP is taking a lead role on several initiatives to improve the information flow among agencies and to give contracting officers and program managers the tools they need to make smarter buying decisions:

Establishing a Business Case Process – To reduce the number of overlapping or duplicative contracts for supplies or services, OMB issued guidance in 2011⁷ requiring the development of business cases for the establishment and renewal of GWACs, and high-dollar multi-agency contracts, BPAs, and agency-specific contracts that could overlap with existing strategic sourcing vehicles. The business case must identify the existing vehicles that the agency evaluated and explain how the proposed vehicle differs from the identified existing vehicles. Before agencies issue a solicitation, they must post a copy of their business case for review by other agencies. This process has greatly improved information sharing and was a factor in GAO's removing interagency contracting from its high risk list earlier this year.

Developing a Prices Paid Portal - Many agencies negotiate better prices than those on the GSA schedule or other interagency contract if they are ordering a large quantity. However, this information is generally not shared among agencies as there is no central data collection requirement or system. To improve transparency of the prices that contracting officers have negotiated for similar goods and services, OFPP, working with GSA and other agencies, is developing a prices paid portal pilot that will show how agencies' deals compare. This aligns with a new Fiscal Year (FY) 2013 National Defense Authorization Act requirement for OFPP to begin collecting this information.⁸

Price visibility is critical to ensuring that the Government gets the best prices and that agencies are not paying more for the same products or services being bought under the same circumstances. As agencies face increasingly constrained budgets, it is critical that they share more pricing information with their Federal colleagues to ensure that the Government is negotiating the best prices for the taxpayer.

The Path Ahead

Our understanding of how best to implement and measure the success of strategic sourcing across large and diverse organizations for complex and unique commodities is an

⁷ <http://www.whitehouse.gov/sites/default/files/omb/procurement/memo/development-review-and-approval-of-business-cases-for-certain-interagency-and-agency-specific-acquisitions-memo.pdf>

⁸ <http://www.gpo.gov/fdsys/pkg/BILLS-112hr4310enr/pdf/BILLS-112hr4310enr.pdf>

evolving process, but one that is making significant strides thanks to the work of the SSLC, the commodity teams, and all our agency SSAOs. GAO noted in their 2012 report, having clear guidance on measuring success is critical to advancing this effort. Strategic sourcing utilization data, such as baseline spending, adoption rates, cost avoidance and savings calculations – while imperfect – are all vital to continued success of these solutions and improvements to our acquisition and management practices. Currently, the SSLC is measuring adoption rates for existing solutions that will be tracked using the OFPP’s Acquisition Status (AcqStat) reviews, and we will work with the SSLC to develop the appropriate savings methodologies and adoption baselines for future efforts as these measures may vary by commodity.

OFPP is committed to reducing the cost of acquisition through greater use of strategic sourcing. It is my top priority and will continue to be one of the most effective tools agencies have in making their scarce budget dollars go farther to meet core mission needs.

I would be pleased to address any questions you may have.