Building World-Class Government Management

Transforming procurement and freeing $40 billion for policy and mission accomplishment

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ASI GOVERNMENT PROCUREMENT TRANSFORMATION

Contents

Introduction

There is as much as $40 billion in untapped, unspoken-for value available to be used to drive the next President's agenda. That is equal to total U.S. spending on International Affairs or on Energy and Environment in fiscal 2015. This windfall, which generally ranges between 7.5 percent and 12 percent of annual procurement expenditure, is the value commonly realized by organizations and governments that transform procurement with category management as the operational strategy.

The next President will take office in January with a distinct advantage for achieving similar success thanks to the category management initiative launched in late 2014 by the Office of Management and Budget.

The category management strategy can deliver efficiency gains, improved mission outcomes, savings, reduced total costs of ownership, more effective achievement of policy goals and a more competitive and effective supply base.

But those gains are only possible if category management is encased in a clearly crafted, unified, White House-led, and broadly communicated overall procurement strategy that provides an operating framework for government.

That strategy for procurement transformation must include governance, performance management, an e-commerce plan, policy, regulatory and legislative alignment and be linked to workforce capability and capacity improvements.

There are powerful arguments favoring procurement transformation as an early focus for the new administration. For one, it offers the new President a chance to begin positively impacting mission and programs by ensuring more efficient processes and allocation of resources, leveraging the scale of government to create short-term value that can be reinvested in programs and policy objectives and improving alignment of

Recommendations for the Next Administration

1. Issue a White House-led, government-wide procurement strategy that includes governance, performance management, an e-commerce plan, policy, regulation and legislative alignment and is linked to capability and capacity improvements.

2. Optimize the current procurement shared-service environment, and align it with the procurement strategy, creating Centers of Excellence and reducing competition and duplication among fee-for-service providers.

3. Tap GSA to lead development and operational execution of a government-wide e-commerce strategy, providing automated sourcing, contract management, supplier management, spend analytics and electronic marketplaces for all agencies using best-in-class applications.

4. Improve acquisition capability within the procurement workforce and among functional leaders in programs, finance IT, human resources, facilities, etc., so all understand the impact of acquisition on core missions.

5. Review and simplify regulations and law to remove unnecessary burdens on industry and government. Don't use legislation as a mechanism for curbing poor behavior.

6. Make it a federal government mission to improve efficiency, innovation and competitiveness in the supply base. Work closely with suppliers and use government's large expenditure to incentivize productive behavior for government and macroeconomic benefit.

supplier performance with mission. In addition, federal agencies' large and growing reliance on the private sector for mission support and delivery means that increasing contracting efficiency drives direct value to citizens.

Category management also frees financial and human resources to be redeployed within agencies to the new administration's priorities.

Robust category management offers a structured, disciplined approach to procuring goods and services via delivery of an integrated purchasing and supply strategy. That strategy is based on mission requirements and the most effective market approaches to deliver maximum value and performance in each spending category.

I saw the promise and delivery of procurement transformation using category management while I helped introduce it in United Kingdom. We achieved more efficient and effective procurement, created billions of pounds of value within government annually and advanced policy goals.

The case for category management is strong. Republican and Democratic presidents have embraced its antecedents. It has become government-wide policy. It is aligned with recent laws and has a long and established track record of private and public sector success.

Making the Case

Bipartisan Origins

Like shared services, category management is a bipartisan effort. It draws upon the work of presidential administrations of both parties, as well as longstanding global government and industry practices. Thus, the new President can harken to its broad approval, support and success in rapidly refining and expanding it.

In 2005, under President George W. Bush, OMB called on agencies to undertake a "collaborative and structured process of critically analyzing . . . spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently." This Federal Strategic Sourcing Initiative (FSSI) was the foundation of the Obama administration's category management initiative.
In fiscal 2011, a government-wide FSSI contract for domestic delivery services contract saved over $31 million, and from fiscal 2010 to fiscal 2012, similar contracts for office supplies saved more than $140 million.

In 2014, Office of Federal Procurement Policy Administrator Anne Rung charged the OMB Strategic Sourcing Leadership Council (SSLC)—formed in 2012 and composed of government's seven largest buying agencies—with approving and prioritizing categories of common government-wide spending for direct management.

Government-Wide Policy

Rung's Dec. 4, 2014 Policy Memorandum, "Transforming the Marketplace: Simplifying Federal Procurement to Improve Performance, Drive Innovation and Increase Savings," implemented a rigorous category management approach across 10 areas of common government-wide spending totaling approximately $277 billion a year identified by the SSLC. Early in 2015, the SSLC became the Category Management Leadership Council, overseeing teams charged with managing the 10 government-wide categories.

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Each government-wide category is governed by a team and managed from one or more executive agent agencies, including the Defense, Veterans Affairs and Homeland Security departments, the Office of Personnel Management and GSA. These agencies provide the category managers.

Beginning in June 2016, the teams delivered initial Category Strategies to the Category Management Leadership Council (CMLC) (chaired by the OFPP Administrator and made up of the agencies comprising the majority of procurement spending) for approval.

Category team goals include:

- Improving the quality and availability of management information, including expenditure data; supplier performance and agency compliance with policies and legislation.
- Building understanding of the marketplace to enable government-wide management of major suppliers and to attract and optimize the use of top industry partners.
- Enhancing acquisition process efficiency and supplier management, eliminating duplicative contracts and bolstering use of designated government-wide contracts
- Creating or improving best-in-class government-wide contracts.
- Undertaking new acquisitions and identifying innovative products and services aligned with government-wide, department and agency priorities.

Promoting Spend Analysis in 2004

Even before strategic sourcing took hold, laying the groundwork for category management, the Government Accountability Office was urging agencies to use spend analysis to procure more strategically. GAO's outline of the approach below anticipates today's practices under the government-side category management initiative.

Spend Analysis: Key Processes

1. Automation: Data automatically compiled.
2. Extraction: Essential data culled from accounts payable and other internal systems.
3. Supplemental information: Additional data sought from other internal and external sources.
4. Organization: Review data to ensure accuracy and completeness; organize data into logical, comprehensive commodity and supplier categories.
5. Analysis and strategic goals: Using standard reporting and analytical tools, data analyzed on a continual basis to support decisions on strategic-sourcing and procurement management in areas such as cost cutting, streamlining operations, and reducing the number of suppliers. Scope generally covers an organization's entire spending.

From: "Best Practices: Using Spend Analysis to Help Agencies Take a More Strategic Approach to Procurement," September 2004, GAO-04-870

Legislative and Policy Alignment

In line with the Obama administration's push for digital government, the Information Technology category has received the most attention from OMB. IT accounted for approximately $50 billion in annual procurement spending over each of the past three fiscal years and is one of the largest of the 10 government-wide categories.

OFPP and the U.S. Chief Information Officer have collaborated to launch a set of IT category management policies that take account of the 2014 Federal Information Technology Reform Act (FITARA) and the 2016 Making Electronic Government Accountable By Yielding Tangible Efficiencies (MEGABYTE) Act.

For example, Category Management Policy 16-1: Improving the Acquisition and Management of Common Information Technology: Software Licensing, issued June 2, 2016, seeks to coordinate software purchasing and usage strategies, centralize software management, optimize usage of commercial and COTS licenses and maximize use of government-wide software agreements.

Policy 16-1 preceded and already is enacting the MEGABYTE Act, signed into law July 29, 2016, which codifies the policy's requirements that agencies develop software license inventories, track spending and find opportunities for consolidations and savings. The policy also answers FITARA's call to create software strategic sourcing and government-wide licensing agreements.

Meanwhile, Category Management Policy 15-1: Improving the Acquisition and Management of Common Information Technology: Laptops and Desktops, issued Oct. 16, 2015, set five "80-percent-solution" standard computer configurations and directed civilian agencies to buy them using just three approved government-wide contracts.

Category Policy 16-2: Improving the Acquisition and Management of Common Information Technology: Mobile Devices and Services, issued Aug. 4, 2016, requires

Category Management Policies

- Chief Acquisition Officers Memorandum: "Transforming the Marketplace: Simplifying Federal Procurement to Improve Performance, Drive Innovation and Increase Savings," Dec. 4, 2014
- Category Management Policy 15-1: "Improving the Acquisition and Management of Common Information Technology: Laptops and Desktops," Oct. 16, 2015
- Category Management Policy 16-1: "Improving the Acquisition and Management of Common Information Technology: Software Licensing," June 2, 2016
- Category Management Policy 16-2: "Providing Comprehensive Identity Protection Services, Identity Monitoring, and Data Breach Response," July 1, 2016
- Category Management Policy 16-3: "Improving the Acquisition and Management of Common Information Technology: Mobile Devices and Services" Aug. 4, 2016

agencies to report mobile service usage and pricing; reduce mobile contracts and better manage demand by, for example, buying cheaper, early-model devices.

This robust IT category management policy and legislative regime is a good beginning at sustaining procurement transformation and category management. The category management cross-agency priority goal under the 2010 Government Performance and Results Modernization Act further supports the IT focus, while also adding a progress measurement regime across all the government-wide categories. It remains for the next President to drive legislation to codify the entire transformation strategy and amplify the broader category management approach.

Track Record of Success

In industry, category management began in the 1980s, first as a method of organizing retail goods by the way consumers used them, and then, in purchasing organizations, to organize third-party spending into categories. Industry estimates of savings by employing the approach range from 10 percent to 30 percent or more, depending on the maturity of a company's procurement function and category management practice. Some studies claim a 12x return on investment among world-class practitioners.

A number of governments and government entities have adopted category management as the centerpiece of procurement transformation efforts. Scotland, New Zealand, Australia, Canada and the United Kingdom have some of the most developed programs.

I served in policy and operational leadership roles as we implemented broad procurement transformation and category management in the U.K., including leading the Government Procurement Service (GPS), the U.K. equivalent to the U.S. General Services Administration.

GPS applied category management to save billions of pounds between 2006 and 2013. For example, between 2011 and 2012, we saved $2.6 billion using demand management to reduce quantities purchased, and freed $620 million to be redeployed to mission via reductions in the average prices paid on contracts. At the same time, central government prime and subcontract spending with small and medium enterprises grew from 6.5

percent in 2010 to 26.1 percent in 2014. The National Audit Organization, our Government Accountability Office equivalent, characterized the transformation as "the most coherent approach to reform to date."

When I led GPS, the U.K. was grappling with the world financial crisis and the consequent recession and severe budget constraints. That period saw year-on-year reductions in the number of civil servants even as socioeconomic challenges—such as rising health care demand, an aging population, increased need for housing and social services—were mounting.

Government departments and Local Authorities were under severe budget pressure, so it fell to GPS had to help them manage procurement spending more efficiently to deliver their missions. We had to deliver significant savings, improve efficiency and get more output and value from the government's spending on common goods and services, such as IT and Professional Services. We needed big savings in the short term, and we had to set the stage for long-term procurement transformation to achieve greater efficiency and better outcomes.

We began by identifying opportunities to aggregate and centrally coordinate procurement more broadly, much as OFPP Administrator Rung and GSA's Federal Acquisition Service are doing now by encouraging the U.S. government to "buy as one" using category management.

Category Management Delivery

E-Commerce

Best-in-class organizations extensively use technology to drive procurement efficiency, implement consistent standards and improve outcomes. The next administration will need to enact a carefully considered e-commerce strategy that ensures resource and expertise are shared in order to effectively implement procurement transformation and category management across numerous, diverse government organizations in reasonable time.

The foundational toolset for enacting an e-commerce strategy is strategic sourcing. In this context, the term refers to technology to automate spend analytics, sourcing, contract authoring and management and supplier relationship management. Effectively deploying these tools creates the data and transparency necessary for measuring functional and supplier performance, sharing best practices and data across thousands of employees in hundreds of organizations, as well as improving strategic decision-making and planning and creating a platform for continuous improvement. Additional e-commerce tools can automate marketplaces, supply chain risk management, market analysis information, purchase cards and sustainability tools.

Data Collection and Management

To enable the U.K. government to buy as one, we had to determine how much we were spending with which companies, on which contracts, in which departments and on what, so we could get our spending under management, aggregate it, and leverage it for improved outcomes, better prices, terms, conditions, quality and performance. Procurement transformation using category management is based on continuous collection, cleansing and analysis of spending and other data, hence the need for the administration to craft and drive a government-wide e-commerce program.

Drawing accounts payable data from all agencies and augmenting it with market and financial intelligence and contract and supplier performance data, GPS was able to analyze spending patterns to provide management information to support optimal operational decisions. We also used data analysis to develop strategic plans in key spending categories in order to consolidate government demand and interact more effectively with suppliers.

It was the first time the U.K. had attempted to fully understand the size and nature of its procurement spending. Until 2010, when we were able to calculate that central agencies (including local governments and the National Health Service) annually bought goods and services totaling about $340 billion in U.S. dollars, we had not produced a fully accurate and reliable total for the government's third-party spending.

"These improvements in data management systems give the clearest picture yet of procurement patterns across government," the National Audit Office (equivalent to the U.S. Government Accountability Office) wrote in 2013.

Procurement Efficiency and Cost Reduction

In the U.K., spend analytics enabled GPS and individual agencies to create all sorts of value, such as identifying high-performing and cost-effective suppliers and helping agencies manage their demand — for example, by identifying where they were spending unnecessarily or ineffectively.

In addition, we could see when agencies were spending outside the most efficient government-wide contracts and guide them to savings opportunities. Spending data also showed whether capable small companies were receiving the amount of business set by government policy—25 percent of central government spending. Spend analytics provided the launching pad for procurement efficiency.

OMB and agencies currently are using the Federal Procurement Data System to get a high-level notion of procurement obligations. But to truly unleash the power of spending analytics and category management, the next President will need to charge GSA with creating and housing a central data system that draws in and analyzes accounts payable

data from agency financial management systems and combines it with obligations data from FPDS.

Spending data also provides insights into suppliers' behavior. In the U.K., we used this to improve our relationships with them. Because we were better able to predict and aggregate large lots of government-wide spending and provided committed volumes, suppliers gave us better prices and terms. They also became more willing to share useful performance information about their operations.

Those insights led us to ask better questions and learn more about the industries where we spent the most, making us even better buyers. For example, we could start asking our suppliers pointed questions about what we actually were paying for, why and whether we were being appropriately charged.

Managing categories of spending helped us develop intelligence about everything from price differentials and profit margins to supply chains and logistics in goods and services markets. For example, we drilled into the information technology hardware subcategory, where OFPP Administrator Anne Rung has noted a 300 percent differential in the prices federal agencies paid for the same laptop.

Our analytics let us dig into similar differentials in the U.K. government so we could take a broader strategic approach. We found that some of our biggest hardware providers didn’t even analyze their own data on total government sales. At that time their primary focus was, unsurprisingly, on optimizing profit, not achieving value for taxpayers by helping aggregate and standardize government’s requirements.

In the case of computers, for example, we were buying through hundreds of suppliers and in excess of 20 major resellers and systems integrators, and we were paying huge price differentials agency to agency and in comparison with commercial buyers. We needed to understand why.

We found some of our resellers were buying from other resellers or wholesalers, rather than from original equipment manufacturers (OEMs). This added mark-ups for shipping and handling and additional profit to the prices we were charged. Further, we found the

resellers weren't aggregating their purchases to get lower prices, negotiating volume rebates or making those rebates available to government.

These practices weren't surprising since the U.K. government wasn't incentivizing the companies to aggregate government orders, reduce the number of transactions with us or seek efficiency savings in their own supply chains. So we changed our behavior and the way contracts were constructed.

We sought to negotiate prices directly with OEMs based on government volume and have resellers charge us accordingly for those brands. We negotiated prices for standard specifications using the most optimal supply route—piggybacking on the most efficient distribution deals struck by OEMs.

Supply Base Efficiency and Policy Goals

Categorizing spending based on the behavior, trends, incentives and supply practices within markets enhances government's ability to drive buying efficiency and take best advantage of the size of its spend. It also enables category teams to match the best buying tools to different categories and to better achieve policy goals via government spending.

For example, where similar, relatively simple products are produced by a small number of large suppliers and there is little variation in quality, a category team's strategy might be to reduce the number of products and suppliers available and manage the category from the center using government-wide contracts.

But if a subcategory is dominated not by large suppliers but small businesses, the category team might opt to increase competition and add suppliers in that subcategory in order to meet or exceed small business goals.

In the U.K., where all the producers in the undifferentiated gas and electric category are global companies, for example, there was no advantage to adding suppliers and increasing competition to help achieve the government-wide policy goal of 25 percent small business participation. In fact, significant value was being eroded by using energy brokers many of whom were small or mid-cap companies. Our strategy focused on the producers and managing them directly.

On the other hand, the U.K. has myriad small software-as-a-service suppliers. So in that subcategory, we employed a dynamic purchasing solution, the G-Cloud. This multiple-award, government-wide contract has a very simple and easy online process for qualifying vendors.

With nearly 800 suppliers, most small, and the ability to easily run mini-competitions, G-Cloud became very popular among government buyers. G-Cloud is an example of a sourcing tool appropriately matched to a market with many capable small suppliers. By using it, we not only met but exceeded the 25 percent policy goal.

In another example, category management enabled us to simultaneously reduce costs and risk to government and achieve carbon emission reductions.

The U.K. spends upwards of $1.5 billion annually on its fleet of more than 270,000 vehicles. But when we began managing vehicles as a category, each agency bought their own using many different contracts, often through third parties, not OEMs. No one knew the total number government was buying.

Spend analysis showed us a large percentage of fleet spending was going to reimburse government employees who were using their own cars. Their agencies became liable for the condition and legal operation of this "grey fleet" of vehicles, a potentially large, unbudgeted-for and unaccounted-for expenditure.

Our analytics enabled us to prove that for travel of 100 miles or more, it was actually more cost effective for employees to use cars leased under a central government contract. In addition, leasing aligned with government carbon management and reduction policies, since the leased cars were newer, more efficient and had lower carbon emissions than employee-owned vehicles.

Consolidating government's demand for cars and the automotive market let us standardize on a minimum set of vehicle configurations, line up large-volume purchases and then buy using electronic auctions when there was a glut of acceptable cars on the market. By timing those auctions, we achieved savings of 30 percent to 50 percent off best commercial prices.

Improved Mission Capability and Outcomes

Managing categories of spending requires continuous, comprehensive analysis of the economic, financial, regulatory and sociopolitical factors affecting suppliers and markets and supplier distribution channels. That analysis provides a deep information base the government can use to capitalize on supply chain value and mitigate risk, protect against natural and man-made disaster, predict and prepare for market disruption and choose the best and most stable suppliers.

Mitigating risks to mission accomplishment is especially important because supplier, market and macroeconomic threats are multiplying. For example:

Federal agencies are increasingly dependent on computers, data centers and infrastructure, such as the electricity grid and cooling systems. Consequently, climate risks that could disrupt the supply networks of these products and services pose a threat to agency missions.

The 2011 monsoons in Thailand caused the worst flooding in 50 years, destroying nearly one-third of the world's hard disk drive manufacturing capacity. HP, the U.S. government's No. 6 information technology supplier and Dell, No. 21 in 2015, both suffered as a result, as did global computer production, causing shortages and price fluctuations affecting the federal market.

NASA told the Government Accountability Office that if U.S. power companies suffer failures, it could lose navigational control of some or all of the 240 spacecraft it is tracking at any time.

Veterans Affairs Department doctors and patients and Air Force pilots among others, rely on Apple iPads and iPhones to perform vital functions. Both devices are built by Foxconn Technology, which assembles 40 percent of all consumer electronic products sold. Past reports of harsh conditions and labor unrest at Foxconn plants assembling iPhones and iPads in China have damaged Apple's reputation and could cause difficulties for government buyers.

In October 2012, Hurricane Sandy caused flooding and power outages at refineries, pipelines, and petroleum terminals in the New York Harbor area resulting in fuel shortages for federal agencies as they tried to provide essential disaster relief.

The F-35 Joint Strike Fighter program includes an extended chain of more than 1,300 suppliers from nine countries and 48 states. Six hundred are considered small businesses. The extent of the supplier network introduces a broad range of points of possible failure.

Deeper understanding of the interactions, trends, constraints, behaviors and financials of vendors, their supply networks and buyers will significantly reduce the risk of such disruptions to agency ability to accomplish program and mission goals.

Category market and supplier analysis also reveals whether current suppliers are sufficient to meet federal demand or whether new companies or even new approaches, are needed. As a result, it offers avenues for exponential improvement in agency capability and delivery of outcomes.

Keys to Implementing Category Management in the Public Sector

Follow the Money

The first step to increasing the value of government procurement spending is understanding, from the lowest organizational level to the highest, how much of what is being bought using which contracts by whom from whom for how much. This is the fundamental level of information without which developing appropriate category strategies, contract management and compliance and measuring supplier performance is fundamentally flawed and inefficient.

Equally important is establishing an accurate, comprehensive understanding of the program objectives and current methods and capabilities for achieving them within and across agencies.

Next, procurement expenditure is segmented into categories based on the markets for the goods and services and how suppliers are organized within them. Sorting spending this way sets the targets for government-wide, as well as agency-specific, category management.

Many agencies individually purchase goods and services from a common supply base using multiple single-organization, enterprise and government-wide contracts. Government can unlock greater value when it acts as a single customer, or "buys as one," in the words of Office of Federal Procurement Policy Administrator Rung.

One of her top goals is consolidating or eliminating duplicative contracts with an eye toward reducing both the administrative cost to government of putting so many of them in place and to companies of cost of winning spots and generating business on them. Since companies pass these costs to government customers, contract consolidation not only increases efficiency, but also reduces prices.

Once spending is known, segmented and categorized within and across agencies, it is easier to discover the extent and true cost of multiple agencies or organizations buying the same or similar things with the same suppliers at different prices, terms and conditions. That data opens the door to consolidating demand, requirements and purchases, as well as identifying the best contracts and suppliers for use agency- and government-wide.

Knowing the full volume and character of agency and government demand enables more effective price negotiation. It also opens the door to standardizing configurations for common goods and services. Reduced variation further reduces cost.

Spend analysis also increases understanding of the supply base and markets, which leads to improved acquisition strategy, supplier performance and savings. Continuous analysis enables monitoring of procurement initiatives and trend analysis to drive behavior to support long-term transformation.

Build Capability

Spend analysis can unearth the total cost of owning assets as opposed to just the purchase price. It helps reveal the relative efficiency of procurement methods and operations. Inventorying assets as a part of the process illuminates the extent to which they are fully used. Probing the components of prices helps determine the costs created by government procurement practices and requirements.

At the government-wide level, managing spending in categories reveals opportunities to improve or create new contracts, aggregate demand and standardize requirements to buy more efficiently, build better informed and more effective relationships with contractors and more rigorously manage and measure contract performance.

Continuous analysis of category-focused market and supplier intelligence reveals ways to challenge and better shape agency requirements. Category teams help programs and agencies redirect, reshape and even reduce their demand and refine and consolidate their requirements.

To do so, the teams need a diverse mix of people with private and public sector backgrounds. They should include analysts, economists and members with specialist industry expertise, for example, energy traders, logistics experts, fleet managers and the like. The teams need hard skills, such as analytics, supplier and market management and performance management.

But they also must be adept at the softer side: collaboration, communications and influencing. Much of their work entails sharing evidence of less effective practices with internal stakeholders and helping them to understand and adopt spending and demand management. It also falls to category teams to make the sometimes unpopular case for moving to central management of common purchasing in order to free agency resources to focus on strategic procurement.

The teams' laser focus on their categories and continuously evolving strategies for managing them produce specialized knowledge, ongoing intelligence and supplier relationships that reveal innovations, opportunities for reuse and new methods and capabilities emerging in the market.

By surfacing the newest techniques, suppliers, innovations and capabilities for accomplishing mission goals, category teams can lead programs to adopt new, more cost-effective and efficient practices and buying methods. Challenging demand and requirements also can reveal opportunities to reuse and share existing goods, equipment and facilities, as well as to eliminate unnecessary or duplicative purchasing.

This very different regime for managing demand, contracts and suppliers draws on procurement tools that can be combined or used individually and applied differently within and across categories. They include strategic sourcing, e-auctions, spot buying, strategic supplier management, risk and demand management and robust, continuous contract performance management.

Much of the success in using these tools rests on aggregating buying volume, for example to support strategic sourcing contracts or attract robust bidding for spot buys and reverse auctions. As teams win more and more organizations to participate in the category regime, they can better drive solutions and help manage demand and standardize service levels, configurations and payment terms.

Common Simple vs. Common or Uncommon Complex

Center-led management of categories and government-wide contracts is appropriate for common spending by many or most agencies on commodity goods and services—office supplies, laptop and desktop computers, simple medical supplies, travel, some vehicles and the like.

Center-led management brings a coordinated and strategic approach to each category of spending. It can mean a single contract, but often implies a number of contracts, likely managed and executed across a number of organizations.

Some categories are best served by a few very specialized or large-scale suppliers, others by frequent competition across many suppliers. But all approaches are aligned and focused on delivering the outcomes incorporated in the category strategy. Center-led management is not a simplistic centralization agenda with large unfocused contracts, but rather a program for using basic levers such as supplier rationalization, aggregation and standardization across all areas of spend.

Strategic spending in categories of complex goods and services bought by only one or a few agencies—for example, weapons systems, flood mapping, intelligence-collection sensors, commercial airline transport of troops and supplies—generally is not appropriate for central management. However, the center can provide common tools and processes to ensure supplier management, infrastructure and interoperability, while decisions are made at the agency level.

This difference is clearly illustrated in the full Government-Wide Category Structure, which comprises not only the 10 common government spending categories, but also another nine defense-centric categories, including aircraft, ships/submarines and land combat vehicles; weapons and ammunition; sustainment; research and development. The

Office of Federal Procurement Policy's government-wide category management initiative is directed only at the 10 common categories.

Nonetheless, for all goods and services spending, no matter where it is managed, standard category management techniques apply, including demand management, spending aggregation, setting common standards, supply chain intervention and supplier management. For complex procurements by agencies, the center still can provide toolsets, guidance and skills.

Establishing a broader procurement transformation program also enables agencies to deploy more resources to manage unique, complex strategic expenditure and to manage suppliers and markets pre- and post-contract. Resources are released to focus on strategic spending categories when common goods and services purchasing moves to procurement shared-service organizations that can do it more efficiently and effectively.

Share Procurement Services

Even for simple purchases cross-government category management can revolutionize government buying, not only to increase value and savings, but also to better achieve policy goals. In the case of energy, for example, the U.K. government invested in sustainable domestic energy production, created jobs and provided economic stimulus, all in a commodity market dominated by large, multinational corporations.

When we began, each of the 17 major central government departments and other devolved parts of the UK Public Sector—whose combined annual energy expenditure was about $73 billion—were buying on their own, without knowledge of the others' demand or prices or what drove market and supplier behavior. So we created a shared service energy trading desk within GPS and hired private sector traders and risk analysts to augment the civil service staff.

We went from single-day trading to being able to forward buy over 25 years. We were paving the way to centralize buying, and when we built the trading desk no one else in government wanted to replicate it. Our vision was not just to aggregate government demand and share procurement services, but to become an energy service provider.

In 2013, we struck a 20-year deal with anticipated savings of $130 million. It also included a guarantee that government would buy the energy generated by a new $465 million energy-from-waste facility creating hundreds of new jobs in a U.K industrial area in with declining employment. The plant also was expected to divert 350,000 tons of waste from landfills annually.

Improve the Supply Base

Wielding its outsized demand and expenditure to impose rationality, improved performance and better business practice, government can bolster its own supplier base while also enhancing the competitiveness of U.S. industry.

For example, in those market categories where government is one of or the largest buyer or is buying unique products or services not yet commercially available, it can stimulate research and development, investment and innovation. In such cases government should be able to make longer term investments in its supply base, create true partnerships, generate jobs and commercially benefit from the results. Accomplishing these goals requires that procurement rules become more flexible to stimulate improved outcomes.

As a result, federal agencies will benefit by gaining access to improved capability. Suppliers will gain by generating new, more advanced products and services. And U.S. industry will become more competitive in the global market by assuming first-mover advantage born of technological breakthroughs.

Conclusion

Transforming federal procurement can be the anchor of the next President's management agenda. It offers the opportunity to drive policy goals, improve mission and program delivery, increase operational efficiency, reduce costs, redeploy resources to mission-critical execution, and strengthen the government supply base and thereby, U.S. industry and its global competitiveness.

Success hinges upon developing, communicating and driving a unified government procurement strategy across the public sector, providing a category management operating framework and addressing the totality of federal procurement expenditure. Doing this requires governance by a strong acquisition community empowered to determine where and how best value for the government can and should be achieved.

That acquisition community should include procurement professionals, but also program leadership and functional leaders, such as the chief information, financial management and human capital officers' councils. And it should be augmented by private sector expertise in markets and suppliers, analytics and e-commerce.

Capacity-building for this community should include a training and development path and must demonstrate the value of acquisition and its impact on achieving mission accomplishment. Category management expertise should be a government-wide resource, identified centrally and organized not just by agency, but also into practice communities providing guidance, tools and consulting government-wide.

Strong common governance should standardize and consolidate requirements to the greatest extent so government can approach markets as a coordinated single buyer. For simple goods and services, departments increasingly should manage their demand against pre-selected catalogues built on government-wide contracts negotiated and maintained centrally. For complex, mission-critical goods and services, decisions should be made at

the agency level using strategies that address supplier management, infrastructure and inter-operability, yet use common tools and processes.

But even agency-level decision-making should be done in a coordinated way that respects its complexity and mission criticality, while also complying with the government-wide procurement strategy and category management framework. And all goods and services, no matter their complexity, should be procured using standard category management techniques, such as aggregation, demand management, common standards, supply chain intervention and supplier management.

Progress in achieving the government-wide procurement strategy should be measured using metrics that cascade from government-wide category teams and the central procurement shared service, through agency teams managing bespoke categories of complex, critical spending. Key performance indicators include cash and other resources released, as well as broader objectives for achieving process efficiencies and policy through procurement. OMB should employ a standard government-wide performance management and assurance framework to collate annual savings targets for categories set at different organizational levels.

OMB and GSA also should set common data standards and monitor the quality, uptake and maturity of standardization across agencies. GSA also should provide central business intelligence capacity, sharing supplier and market intelligence with government-wide and agency category teams and actively monitoring critical cross-government suppliers for financial and supply-chain distress. GSA should be funded to provide and manage e-commerce infrastructure for all agencies.

Introducing a comprehensive procurement regime powered by a unified strategy driven across government is transformative in itself. Enacting a category management operational framework that is outcome-focused and delivers against policy objectives along with a broader government agenda including, for example, innovation, sustainability and supply base improvement, can anchor the presidential management agenda. This kind of procurement transformation will extend far beyond regulatory reform to release resources and refine mission capability to deliver exponential increases in policy achievement and government performance.