

# Implementing category management in the federal government

by Paul Donato and Matthew Lisk



Federal agencies are facing increasing pressure to reduce costs in the wake of ever-decreasing budgets. At the same time, these agencies are being asked to maintain and, in many instances, increase their level of service and responsibility. To avoid making unilateral cuts, federal agencies must look strategically at their portfolio of expenditures to determine the best levers to help reduce spending without sacrificing service. One lever is to take a more holistic look at the process of managing and procuring goods and services through the use of **category management and strategic sourcing**.

The concept of strategic sourcing has existed within the federal government for more than a decade. However, category management extends beyond just the sourcing component of the acquisition process. Category management also takes into consideration factors such as total cost of ownership (TCO), supplier relationship management (SRM), risk management and demand management, allowing the buying entity to make the most informed acquisition decision possible.

There is now a concerted effort, led by the General Services Administration (GSA) and the Office of Management and Budget (OMB), to provide a more coordinated, strategic approach to government-wide purchasing and enable further cost savings. OMB released a memo, "Transforming the Marketplace: Simplifying Federal Procurement to Improve Performance, Drive Innovation, and Increase Savings," that detailed the Administration's commitment to use category management as a way to improve how the government buys goods and services. This effort is further supported by OMB's recent announcement of the Category Management Centers of Excellence leads. GSA's Common Acquisition Platform (CAP) team's development of the Acquisition Gateway also highlights the depth of GSA's commitment to embedding category management as the way to manage acquisitions within the federal government.

## EY's approach to category management

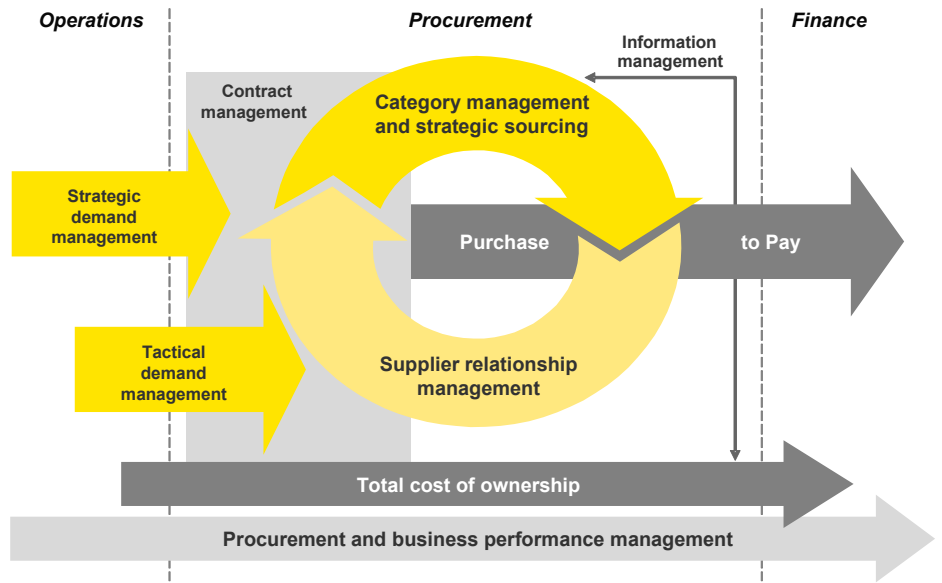
At Ernst & Young, LLP (EY) we believe that category management is executed within the context of an Integrated Procurement Framework (see Figure 1). The objective is to dramatically reduce organizational spend through proactively managing the goods and services an agency purchases. This is accomplished through better demand management and establishing more competitive contracts. Reducing spend is done in parallel with enhancing internal stakeholder relationships and improving supplier relationships, oversight and risk management. Our approach analyzes the end-to-end process so clients can go beyond just capturing initial savings to sustaining those savings over time. We do this by developing an up-front strategy that takes into account the end-to-end procurement process and by using category benchmarks that help identify initial savings opportunities. We then establish a governance framework to monitor the category strategies and focus on buying-channel optimization to monitor contracts utilization.

This framework and its levers align with the three-part operating model (Category Planning, Execution of Selected Performance Levers and Performance Management) set forth in GSA's "Government-Wide Category Management Guidance Document."

The Integrated Procurement Framework levers correspond to the areas in GSA's three-part operating model as follows:

- ▶ **Category Planning:** category management and contract management
- ▶ **Execution of Selected Performance Levers:** strategic and tactical demand management, strategic sourcing, supplier relationship management and total cost of ownership
- ▶ **Performance Management:** procurement and business performance management

**Figure 1: Integrated Procurement Framework**



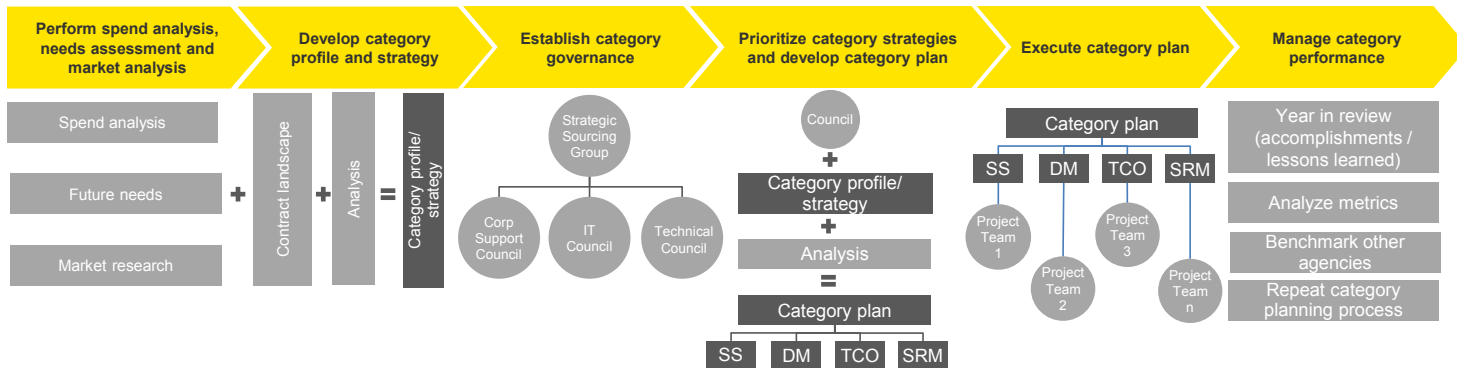
Each lever is an integral part of achieving sustainable results in the procurement organization. Each lever is described below.

Lever	Description
Category management	Lays the foundation for an agency to proactively monitor and manage the commodities it purchases. Includes the establishment of a governance structure and a repeatable framework to identify and execute strategies, monitor progress and achieve sustainable results.
Contract management	Establishment, maintenance, monitoring and enforcement of contracts and interagency agreements. Enables more effective and efficient spend analysis and helps drive spend compliance through the category management and strategic sourcing levers. Furthermore, routinely monitoring period of performance enables agencies to proactively develop strategies for procurements.
Demand management (strategic and tactical)	Practice of analyzing tactical demand patterns and identifying strategic ways to change how the agency consumes goods and services. This is conducted through internal policy and procedure changes that modify employee consumption and/or buying behavior and can be combined with the strategic sourcing lever to reduce costs by leveraging newly established vehicles.
Strategic sourcing	Involves creating a coordinated procurement across the agency that includes performing market research to identify potential sources, leveraging existing government sources (e.g., Federal Strategic Sourcing Initiative (FSSI), Government-Wide Acquisition Contracts (GWACs), etc.), and developing vehicles as appropriate for the agency to use to acquire its goods and services.
Supplier relationship management	Focuses on segmenting vendors to understand the type of relationship the agency should have with each vendor. Vendors are stratified by spend and impact of the relationship on the agency. Then relationships are strategically planned and managed based on each segment, placing greater emphasis on critical relationships and less on transactional ones.
Total cost of ownership	Looks at the full life cycle cost of an item, including initial acquisition cost, transportation costs, maintenance, consumables and disposition of the item. Enables an agency to make an informed decision on the best value option. Sustainment costs typically reflect a significant portion of the total life cycle cost; therefore, only considering the initial acquisition cost may lead to selecting an option with a greater long term cost.
Procurement and business performance management	Identification and implementation of key performance indicators (KPIs) that drive behavior and measure the health of the procurement organization and success of the category management program. Metrics should be tied to the agency's mission and include strategic, management and operational level metrics that clearly tie together and are integrated into performance goals to drive behavior. Metrics cover key areas such as savings, costs, efficiency, effectiveness, people/organization and stakeholders.

# Case study: applying category management in the federal government

EY has supported a government agency in its implementation of category management. Figure 2 outlines the overarching framework that has been implemented at the agency.

**Figure 2: Category management at a government agency**



To establish the foundation for a category management governance structure, a spend analysis was performed to identify the commodity categories that the agency routinely purchases. This was leveraged to develop a series of governing bodies called commodity councils to oversee a commodity or portfolio of commodities. Three councils were developed: Corporate Support, IT and Technical. These councils set the strategies for their respective commodity and implement integrated project teams (IPTs) to analyze and develop strategies around strategic sourcing (SS), demand management (DM), TCO and SRM. These councils report to a strategic sourcing group that approves each strategy and monitors the progress of the category management program. Each commodity council performs a year in review and identifies lessons learned that can be leveraged in future strategies.

With support from EY, this agency was able to accomplish the following in each lever:

Lever	Actions and results
Contract management	<p><b>Action:</b> A contract landscape was created that identifies all of the agency's active contracts and includes items such as the scope of work, period of performance and contract ceiling.</p> <p><b>Results:</b> Enabled the agency to pro-actively identify contracts that may have duplicative scope and identify when contracts will expire in order to develop future strategies.</p>
Demand management (strategic and tactical)	<p><b>Action:</b> Several projects focused on reducing demand or improving compliance by using established vehicles and reducing maverick spend.</p> <p><b>Results:</b> Examples of this include the following: changed device standards on networked printers to print double-sided and default to black and white, and issued a memo to print one copy then use copier to mass produce.</p> <p>Developed a policy to obtain meeting and conference space. The agency must first look for internal space; if it is not available then the Enterprise-Wide Contracts (EWCs) could be used, and as a last resort, non-EWC vendors could be used if a waiver was approved.</p>
Strategic sourcing	<p><b>Action:</b> Quick win opportunities were identified with a focus on coordinating procurement to leverage the agency's buying power, resulting in the creation of EWCs.</p> <p><b>Results:</b> These strategies reduced the prices paid through leveraging the agency's buying power, standardized the goods and services purchased, standardized terms and conditions, reduced agency risk and standardized the acquisition process to obtain these goods and services. Examples of EWCs established include the following: application software, IT system operations and maintenance, contract officer representative training and rental of external meeting space.</p>
Supplier relationship management	<p><b>Action:</b> One council consistently used the same vendors as there are only a handful of contractors that specialize in this commodity. Therefore, a strategy was developed that focused on building the agency's relationship with these vendors. This strategy not only included establishing EWCs but also focused on improved/ongoing dialogue with their top vendors, as permitted by the Federal Acquisition Regulation (FAR) to understand their market capabilities and solicit input on how the agency can improve its procurement process.</p> <p><b>Results:</b> Several EWCs were developed reducing the total number of new contracts as task orders are now leveraged. Internal manpower efficiencies were also achieved by reducing the time required to place the work with the proper source.</p>
Total cost of ownership	<p><b>Action:</b> A current state assessment was performed to analyze all costs associated with managing and operating the agency's existing fleet of printers, scanners, copiers and fax devices. The current state assessment analyzed the device type (color, black and white, stand-alone devices, multi-function devices, etc.) and the acquisition, maintenance and consumable (toner) costs.</p> <p><b>Results:</b> A current state cost per page model was developed and was compared against benchmarking data to identify a future state strategy to implement a more cost-effective solution for the agency. The agency is currently working to implement the future state strategy.</p>
Procurement and business performance management	<p><b>Action:</b> Performance metrics tied to business objectives were identified, baselines and targets were established, and quarterly metrics were implemented.</p> <p><b>Results:</b> Examples of metrics developed include the following: percentage of spend strategically sourced, cost savings achieved, time savings/efficiencies gained and percentage of obligations with small business contracts.</p>

## Five keys to successful category management

Through our work helping both public sector and commercial clients implement category management and strategic sourcing programs, EY has identified a common set of critical lessons learned that we believe are important for federal agencies to consider as they begin this transformation journey. While these are not an all-encompassing list, we believe they are the most critical ones to consider while beginning your category management initiatives.

- 1. Spend analytics.** In order to be able to properly develop a governance structure for your category management program, you need to have a fundamental understanding of what you are purchasing. Often, agencies will look to what they have budgeted or obligated to make this assessment, but it is critical that agencies analyze the actual expenditure data to be able to develop a baseline understanding of their spend profile. This will help enable the agency to determine the types of categories it wants to manage and will help provide the foundational data to start allowing the agency to make decisions about category-level strategies, sourcing opportunities and supplier relationship management approaches.
- 2. Change management/internal stakeholder management.** Category management programs will not be successful without an appropriate level of change management. It is critical to achieve buy-in from all stakeholders – both internal and external to the procurement function – or it will be difficult to maximize the benefit from category management. Utilize frequent communication channels – e.g., town halls or newsletters – to keep affected individuals apprised of the latest program developments and successes.
- 3. Performance management.** Take the time to develop an understanding of the existing baseline performance in order to measure progress against implementation. It is also important to make sure you are measuring the “right” things – category management programs can be derailed if incorrect metrics are used that drive behaviors inconsistent with the goals of category management.

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- 4. Leverage federal category management/sourcing efforts.** As you develop sourcing strategies, don't reinvent the wheel by having to create an entirely new contract. Check to see if GWACs are available to help fulfill the procurement need while leveraging the broader government buying power.
- 5. Training.** Many skills required to successfully execute a category management program may be new for existing acquisition professionals. Agencies should develop detailed training programs – with hands-on practical training experience – to help upskill existing employees. Agencies should also integrate these new performance requirements into employees' position descriptions so that these practices can be embedded into their day-to-day operations.

EY has the experience, knowledge, approach and staff required to meet your agency's category management needs. EY is a world leader in the advisory services market. Established in 1903, EY today is a \$27b global organization with more than 212,000 professionals worldwide. EY has dedicated Procurement Transformation resources within our Supply Chain practice. These resources focus on overall procurement transformation projects, including category management and strategic sourcing. Our individuals have strategic sourcing and deep category knowledge in a variety of commodities and are leveraged across our project teams to provide clients with exceptional client service.

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