

U.S. Department of Transportation

Strategic Sourcing Report

January 2007

## **I. DWSS PROGRAM BACKGROUND AND STATUS**

The Department of Transportation spends over \$5 billion annually on purchases of goods and services. Of the 11 Operating Administrations within DOT, the Federal Aviation Administration (FAA) is by far the largest in terms of procurement spend and represents over 50% of total DOT spend on goods and services, or \$2.9 Billion.

Over the past year, DOT has made progress in building the DOT-Wide Strategic Sourcing (DWSS) Program. Many of the successes have come through the FAA's strategic sourcing initiative SAVES, commodity initiatives related to the Department's new headquarters building and commodity councils within the CIO governance structure.

DOT initiated its strategic sourcing effort in FY 2004 in order to address the need to consolidate information technology in preparation for the Department's transition to a new headquarters building. A policy was established by the CAO and CIO and was disseminated department-wide, requiring coordination of IT requirements with Operating Administration CIO's. As a result of this process, IT proposals are reviewed by Operating Administration CIOs and forwarded to the Architectural Review Board to determine if a Commodity Council should be formed to further scope the requirement and to perform market research. Enterprise-wide contracts (e.g., Oracle licensing agreement) have resulted from this process. In addition, a Commodity Council for Section 508 software was completed and an Enterprise Information Management Commodity Council was launched in FY 2006 that was initiated by a policy letter cosigned by the CIO and the SPE.

Other accomplishments related to strategic sourcing at DOT include the establishment of pricing agreements under the Purchase Card Program with Staples and Office Max to leverage the Department's spend for office supplies in FY 2005. In FY 2006, the Federal Aviation Administration has made significant progress in its strategic sourcing program, Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES). Other FY 2006 strategic sourcing activities include the establishment of a Workspace Commodity Council to coordinate the purchasing of furniture and furnishings and an analysis of printing devices and services costs at DOT headquarters to support policy decisions related to printing as part of the transition to the new headquarters building.

## **II. DWSS RESULTS FOR FY 2006**

### **II.1 Summary of DWSS Results**

Since the establishment of DWSS, DOT has made progress in several key areas, which are described below.

### ***Governance Structure***

The Department is currently working to formally establish a strategic sourcing governance structure, which will enable Department-wide implementation of strategic sourcing best practices. Over the past year, the DOT Senior Procurement Executive briefed Operating Administration Chief Acquisition Officers as well as the departmental CIO on strategic sourcing and the use of the purchase card as a strategic sourcing method. The Office of the Senior Procurement Executive also developed a proposed governance structure that leverages existing infrastructure for IT acquisitions.

FAA endorses strategic sourcing as new procurement methodology. During FY2006, FAA developed changes to the Acquisition Management System Policy and Guidance to encourage the use of this methodology for procurement of standard products and requires the use of the contracts that are available. The policy was approved and published in FY2007.

### ***Strategic Sourcing Initiatives***

In October 2005, DOT identified and submitted three commodities to OMB for strategic sourcing: Office Supplies, Furniture and Furnishings, and Software. These commodities represented a combination of newly identified strategic sourcing opportunities as well as existing strategic sourcing efforts. DOT has made progress in each of these areas, which is described in more detail in section II.3.

In addition to making progress on the above commodity areas, DOT has undertaken additional strategic sourcing initiatives beyond the commodities previously submitted to OMB:

- **FAA SAVES program** – In FY 2006, FAA established the Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES) program as part of its Flight Plan goal to control costs while delivering quality customer service. In addition, the SAVES program is helping FAA standardize technology, consolidate buying activities, and monitor IT spending. Strategic sourcing initiatives have been established for five commodities: Office Supplies, Office Equipment, IT Hardware, Printing and Courier Service. In FY 2006, FAA awarded new national contracts for Office Supplies, Office Equipment and IT Hardware. These contracts were all awarded late in the year so that the actual realized savings was only about \$360K in FY 2006.
- **DOT Print Cost Initiative** – An analysis of printing devices and services costs at DOT headquarters was performed to provide management with information needed to support policy and sourcing decisions related to printing for the new building. This initiative identified the multiple sources of savings in printing at headquarters, which are described in further detail in section II.3.
- **Domestic Delivery Services (FSSI)** – The Department has negotiated an agreement with Federal Express that is resulting in savings of 8.3% below GSA schedule prices. In addition, DOT is currently evaluating the value and feasibility of participating in the FSSI Domestic Delivery Services agreement with Federal Express for Operating Administrations other than FAA. In FY 2006, FAA negotiated a separate agreement with Federal Express that better matches their shipping profile than the FSSI agreement.

Although DOT is not an active participant in FSSI, the Department recognizes the value of this initiative and is currently evaluating options to participate more actively.

## II.2 DWSS Performance Measures

Performance measurement, both at the program level and at the commodity level, is critical to ensuring success of the DWSS program. The following metrics have been identified to measure and monitor the effectiveness of the program.

DWSS Performance Measures		
Performance Category	Performance Measure	Description / Methodology
<b>Price of the goods or services</b>	Total savings achieved	Dollar and/or % savings through reductions vs. baseline of prices of goods and services
<b>Performance</b>	# of commodity teams initiated	Total number of commodity initiatives where personnel are continuously engaged in managing a commodity
	% of addressable spend addressed through strategic sourcing	Total spend volume being sourced through commodity teams as a percentage of total addressable DOT spend
	Overall customer satisfaction	Calculation methodology not yet determined
	Compliance with strategic sourcing agreements	Spend through strategically sourced agreements as a percentage of total commodity spend
<b>Socio-economic goals</b>	Small business utilization achieved (FY06) and projected (FY07)	Dollar and % small business spend achieved and projected per strategically sourced commodity
<b>Information that improves management of commodities and services</b>	% of addressable spend where transaction (Level 3) data is being collected*	Total spend volume for which detailed transaction (Level 3) data is being collected as a percentage of total addressable DOT spend*

\* Level three data is currently not captured, but new contracts let to execute strategic sourcing will levy requirements for the contractor to provide this data.

Although several performance metrics have been identified, DOT is still in the process of establishing baseline data in order to measure many of the above metrics at the program level. The following table provides a summary of DWSS program level metrics for FY 2006 and goals for FY 2007, as appropriate:

Program Level Metrics	
Performance Measure	FY 2006 Results and FY 2007 Goals
Total savings achieved	<ul style="list-style-type: none"> <li>Total DOT savings for FY 2006 is estimated at \$10 Million, although this figure is yet to be validated.</li> <li>This savings is primarily due to the \$9.5 Million in savings from the Dell IT hardware BPA and \$500K in savings from office supplies.</li> <li>Additional agreements established by FAA in FY 2006 are expected to result in significant savings for the Department for FY 2007.</li> </ul>

Program Level Metrics	
Performance Measure	FY 2006 Results and FY 2007 Goals
# of commodity initiatives established	<ul style="list-style-type: none"> <li>• DOT has initiated a total of seven (7) commodity initiatives since the establishment of its strategic sourcing efforts in FY 2004: <ul style="list-style-type: none"> <li>– FAA has initiated five (5) commodity teams since the establishment of the SAVES program.</li> <li>– DOT headquarters has initiated two (2) commodity councils through the CIO council.</li> </ul> </li> <li>• DOT plans to initiate additional commodity initiatives in FY 2007.</li> </ul>
% of total spend addressed through strategic sourcing	<ul style="list-style-type: none"> <li>• Quantifying spend addressed through strategic sourcing is a goal for FY 2007.</li> </ul>
Customer satisfaction	<ul style="list-style-type: none"> <li>• DOT achieved a 73% procurement customer satisfaction rate overall in FY2006. DOT is exploring options for addressing customer satisfaction with specific reference to strategic sourcing.</li> </ul>
Compliance with strategic sourcing agreements	<ul style="list-style-type: none"> <li>• Addressable spend associated with established strategic sourcing agreements as a percentage of total addressable spend</li> </ul>
Small business utilization achieved	<ul style="list-style-type: none"> <li>• Overall, DOT met its small business prime contract goal of 35%. The Department is exploring how it might track small business utilization for strategically sourced commodities.</li> </ul>
% of total spend where transaction (Level 3) data is being collected	<ul style="list-style-type: none"> <li>• The ability to collect transaction (Level 3) data is a planned objective for future DOT commodity initiatives.</li> </ul>

### II.3 Commodity Strategic Sourcing Results and Participation in FSSI

DOT has made significant progress in strategic sourcing for many commodity areas. Some commodities are further along in the strategic sourcing process than others. As such, results for some commodity areas are somewhat limited and many performance metrics have not yet been quantified. Results for commodity strategic sourcing efforts are described below.

In addition, although DOT is not currently participating in any of the FSSI commodity teams, the Department will consider using FSSI solutions once they are developed, if DOT determines that these vehicles provide a cost savings over DOT's existing vehicles and maintain or improve the level of service.

#### **Office Supplies**

Although a commodity team has not been established for office supplies, DOT has established price agreements with Staples and Office Max under the Purchase Card Program. These agreements have been in place since FY 2005 and have resulted in savings of 7.9% below GSA schedule prices for Staples and 4.25% below GSA schedule prices for Office Max. In addition, these agreements ensure that customers are not charged sales tax with their orders, which is believed to have resulted in additional savings.

FAA conducted a competition and awarded a national contract for toner, paper and general office supplies to Office Depot in FY 2006. FAA consulted with the FSSI Office Supplies Commodity Team and shared the details of their competition, including the statement of work. As part of the agreement, Office Depot established an FAA web portal with FAA-specific pricing. The

contract was awarded in July 2006, but the website and training were not completed until September 2006.

Office Supplies Metrics	
Performance Measure	FY 2006 Results
Total savings achieved	<ul style="list-style-type: none"> <li>• Total savings for office supplies are estimated at \$500K for FY 2006.               <ul style="list-style-type: none"> <li>– Savings are based on prices of 7.9% below GSA schedule for Staples and 4.25% below GSA schedule for Office Max for DOT, excluding FAA. This represents approximately \$140K in savings.</li> <li>– FAA savings through Office Depot is approximately \$360K.</li> </ul> </li> </ul>
Compliance with strategic sourcing agreements	<ul style="list-style-type: none"> <li>• DOT is working on implementing an approach for tracking compliance. Sales with Staples are up 26% for FY 2006 over FY 2005 based on purchasing card data provided by the issuing bank.</li> <li>• In addition, communications are sent to each DOT Operating Administration twice per quarter to remind them to use the vehicles</li> <li>• FAA compliance with the new agreement was estimated at 50% for the month of September (first month of implementation)</li> </ul>
Small business utilization achieved	<ul style="list-style-type: none"> <li>• Agreements with Staples and Office Max ensure compliance with JWOD regulations.</li> <li>• Nearly 9% of office supplies sales through the Staples contract are associated with small business and another 11% are associated with JWOD enterprises</li> <li>• A Small Business Subcontracting Plan with specific targets was included in the FAA contract with Office Depot.</li> </ul>

### **Furniture and furnishings**

In FY 2006, DOT consolidated furniture requirements for the new headquarters building and negotiated a contract which has resulted in deep discounts off of list prices for this one-time, large furniture buy. In order to effectively manage the demand for workspace alterations moving forward, a Department-wide policy for workspace alterations related to the new DOT headquarters has been drafted and is pending approval. In FY 2007, DOT is planning to establish a Workspace Commodity Council to collaboratively develop and execute a sourcing strategy for all goods and services related to DOT workspaces including facility alterations, furniture procurements, reconfigurations, relocations, signage and IT modifications.

### **Software**

In FY 2005, DOT negotiated an enterprise-wide licensing agreement for Oracle software. This agreement has resulted in \$4 Million per year in cost avoidance based on the expected growth in the number of Oracle users within the Department. The agreement allows for central management of Oracle licenses and enables DOT to have unrestricted licensing.

In November 2006, DOT renegotiated the Oracle software agreement to achieve additional savings. In the new agreement, DOT will pay for the perpetual license over four years rather than paying an annual enterprise license fee indefinitely. The agreement will result in a greater cash outlay from DOT upfront; however, the Department is projecting savings after the sixth year of the agreement. Since DOT technology personnel expect that the Department will

continue to leverage the Oracle platform for at least the next ten years, this agreement represents over \$10 Million in savings potential.

In addition, a commodity team was established through the CIO Council to determine an enterprise-wide approach for Enterprise Information Management (EIM). The council was established in FY 2006 and is in the process of gathering requirements from across DOT Operating Administrations.

### **Printing Devices and Services**

DOT has made progress in strategic sourcing of printing devices and services through two separate initiatives:

At DOT headquarters, a total cost model for printing devices and services was developed to support management decision-making related to printing for the upcoming move to the new headquarters building. This study estimated DOT printing costs at headquarters to be over \$4 million annually and identified several opportunities to improve the management of printing through the establishment of policy related to demand management, improving management processes for printing devices and services, and implementing sourcing best practices. The study has resulted in a discussion of policies which will be pursued in FY 2007.

FAA has also initiated a commodity initiative related to printing devices as part of the Office Equipment commodity initiative within the SAVES program. This effort included an analysis of FAA printing spend and user requirements with a key goal of streamlining the number of vendors to limit both vendor and device proliferation. At the end of September 2006, FAA awarded a single contract to Lexmark for both printer and copiers/multifunction devices. The new contract offers only 4 printers and 6 multi-function devices to standardize products. The solicitation and specifications have been shared with the FSSI team.

### **IT Hardware**

In FY 2005 FAA consolidated all of its computer purchases for desktops, laptops and LAN based servers into a BPA with Dell. That contract continued in FY 2006 and is used DOT-wide for the purchase of these products. In FY 2006 the Department spent over \$27 million on this contract, resulting in estimated savings of more than \$9.5 million pending further validation. This figure is based on the price difference between the GSA schedule cost and what the products costs under the new contract.

In FY 2006 FAA established a commodity team strategic sourcing IT hardware other than the existing Dell BPA. After an analysis of the baseline data and review of the market the acquisition strategy was to set aside a portion of the business specifically to small business. FAA conducted two separate competitions and awarded a contract to a small business, SDV Solutions, for monitors, scanners and projectors and a contract to GTSI for servers, network devices and other peripherals.

Performance Measure	Results
Total savings achieved	<ul style="list-style-type: none"> <li>• DOT estimates savings of \$9.5 M in FY 2006 for IT Hardware. The source of savings is primarily the Dell BPA and is still pending validation.</li> <li>• Other FAA contracts were not awarded in time for implementation in FY 2006; however, additional savings are expected for FY 2007.</li> </ul>
Cost of the transaction	<ul style="list-style-type: none"> <li>• Although labor savings has not been quantified, these agreements have simplified the buying process thereby reducing acquisition-related labor costs.</li> </ul>
Compliance with strategic sourcing agreements	<ul style="list-style-type: none"> <li>• Use of the Dell BPA is mandatory; however compliance is not currently tracked.</li> <li>• FAA compliance with both SDV and GTSI contracts will be tracked in FY 2007</li> </ul>
Small business utilization achieved	<ul style="list-style-type: none"> <li>• Current agreements in place are with large businesses.</li> <li>• SDV contract is a small disabled veteran owned business</li> <li>• GTSI contract has small business sub-contacting goals.</li> </ul>

### **Mail / Courier Services**

FAA established a commodity team to strategically source courier and transportation services, specifically overnight air, ground, and freight services. A baseline of existing use of these services from current suppliers was gathered and provided FAA with specific quantity estimates to the vendors for a contract competition. Since FAA had not made a selection when the FSSI contract was announced, FAA compared its proposals to the rates offered government-wide. The FAA contract with FAA-specific rates was awarded in FY2007. The rates are specific to the FAA usage estimates, and include freight and international shipping not available on the FSSI contract. Because the contract was only recently awarded, savings data is unavailable.

The Office of the Secretary of Transportation negotiated a department-wide (other than FAA) contract with Federal Express for courier services at 8.3% less than available under GSA schedule. FY 2006 savings from this contract was approximately \$42K.

### **III. DWSS PROGRAM GOALS FOR FY 2007**

While DOT has made progress during FY 2006, the Department is striving to speed up the implementation of the DWSS program. Some of the key goals for FY 2007 include:

- Implement DWSS governance structure in order to ensure “buy in” and participation across the Department.
- Launch DOT-wide commodity teams and continue to implement sourcing strategies for commodities identified in FY 2006. Consider participating in FSSI working groups for those initiatives, as appropriate.
- Develop metrics for use in strategic sourcing decisions. This will include developing baseline data and information for currently identified commodities as well as exploring ways to capture information related to cost savings.



- While DOT is pursuing its small business goals set forth in the new Small Business Procurement Scorecard and its customer satisfaction goals under the Balanced Scorecard performance management methodology, we will seek to capture information regarding small business participation for commodities which the Department has strategically sourced. We will also try to determine if efforts to use strategic sourcing methods impact customer satisfaction.
- Develop a communications platform to ensure a clear and consistent message on strategic sourcing across the Department.
- Achieve FAA Flight Plan target of 10 -15 % savings for strategic sourcing for selected products and services.
- Reach 70% compliance within 4 months of implementation of FAA strategic sourcing contracts.