Report to the Office of Management and Budget

Implementation of Strategic Sourcing Initiatives

Fiscal Year 06 Update

United States Department of Defense (DoD)
Office of the Under Secretary of Defense for Acquisition, Technology and Logistics (OUSD(AT&L))

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I. Department of Defense Strategic Sourcing

A. Purpose

Strategic sourcing is a collaborative and structured process of analyzing an organization's spend and using the information to make business decisions about acquiring commodities and services more effectively and efficiently[1]. In May 2005, the Office of Management and Budget (OMB) directed federal agencies to leverage spending to the maximum extent possible through strategic sourcing. As reported in January 2006, the Department of Defense (DoD) has taken steps to meet OMB's priority of maximizing taxpayer value. This report provides current information on strategic sourcing activities that DoD has undertaken in fiscal year 2006, and efforts to monitor and continuously improve strategic sourcing across the Department.

B. Background

As the largest purchasing organization in the world, the Department of Defense spent over $265 billion to purchase goods and services in Fiscal Year 2006. In DoD, senior leadership treats acquisition as a strategic function because it is vital to the success of efforts to provide reliable, responsive, and cost effective support to our soldiers, sailors, airmen, and marines worldwide. DoD implemented Department-wide initiatives to manage and execute strategic sourcing to leverage Department-wide spending effectively and efficiently, and the Military Services and Components provide leadership for specific strategic sourcing efforts.

Starting in December 2005, the Assistant Deputy Under Secretary of Defense (ADUSD) for Strategic Sourcing and Acquisition Processes (SS&AP) led and facilitated Department-wide strategic sourcing efforts. This level of organizational oversight and management provided initial visibility and leadership to develop strategic sourcing at the enterprise level as well as provide savings and operational efficiencies to a much larger customer base.

Enterprise level strategic sourcing became better established in FY06 and the active stakeholder community grew. Effective 1 October 2006, DoD senior leadership transferred the strategic sourcing functional responsibility to the Director, Defense Procurement and Acquisition Policy (DPAP) in the office of the Deputy Under Secretary of Defense, Acquisition and Technology (DUSD (A&T)). Migrating to this organization allows the strategic sourcing initiative to leverage the organizational synergies within DUSD (A&T). This will facilitate the inclusion of policy development, management of the acquisition of services, functional responsibility of procurement systems, and alignment with Military Services and Defense Agencies' senior procurement executive leadership, to execute the strategic sourcing vision.

C. Current Activities

During 2006, the Strategic Sourcing Directors Board (SSDB) served as the single DoD point of contact for enterprise strategic sourcing activities and all Federal strategic sourcing initiatives. Those initiatives include the Federal Communities of Practice for Strategic Sourcing, Federal Strategic Sourcing Initiatives (FSSI), and the Chief Acquisition Officer (CAO) Council Strategic Sourcing Sub-Group. The dedicated senior-level support helped to mature the DoD-Wide Strategic Sourcing Program (DWSS) governance, management, and execution as well as align strategic sourcing activities across the Department. The

[1] Office of Management and Budget: "Implementing Strategic Sourcing" Memorandum, May 20, 2005.

remainder of this report presents the active efforts of the Department of Defense in Fiscal Year 2006 to monitor and continuously improve the strategic sourcing model.

DoD-Wide Strategic Sourcing Program

The DWSS program leverages the lessons learned and successes of prior strategic sourcing activities, and the knowledge of the entire community to improve the enterprise operational model for strategic sourcing. In FY06, the program was guided by its Concept of Operations (CONOPS) to achieve its five core objectives, and worked to align strategic sourcing concepts throughout the Department through improved governance, communication, and policy.

Goals and Objectives

The five core objectives, outlined in the CONOPS, remain unchanged from the last report. This reflects the Department's commitment to the strategic sourcing vision and continued desire to realize cost reductions and process efficiencies while meeting socio-economic goals. They include:

1) Establishing Department wide, cross-functional acquisition strategies
2) Reducing Total Cost of Ownership for goods and services
3) Improving fulfillment of socio-economic goals
4) Standardizing acquisition business processes
5) Improving skills of the DoD acquisition community

Performance Measures

To meet the Department's strategic sourcing goals and objectives, program-level metrics were established. As part of that effort, DoD benchmarked industry and government sectors. Table 1 provides FY06 results rolled up from the reports of Section II.

Table 1. FY06 Results

Program Level Metrics		
Metric	**Description**	**DoD Performance**
Total number of current strategic sourcing activities, initiatives and/or commodity councils	Number of active strategic sourcing efforts that are in the implementation phase or have completed implementation	There are 42 active strategic sourcing activities throughout DoD.
Total number of individuals trained in strategic sourcing within the year	DoD staff who have been trained on at least some aspect of strategic sourcing within the fiscal year	Over 1700 individuals throughout DoD received some training on strategic sourcing in FY06.
Total FY06 spend covered within initiative	Total spend volume covered – based on business case	DoD managed $ 4.3Billion in strategic sourcing activities in FY06.
Total cost avoidance	Total reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance as applicable to activity	DoD achieved $538M in cost avoidance in FY06 from these strategic sourcing programs.

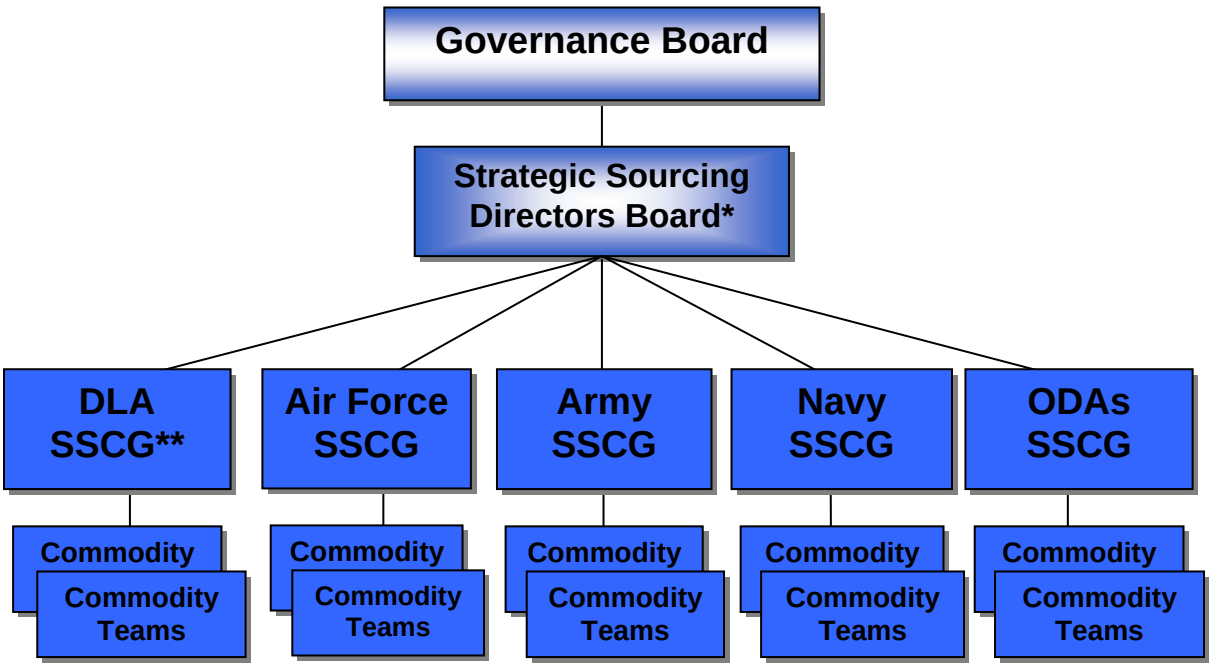
Program Level Metrics		
Metric	**Description**	**DoD Performance**
Percent of Strategic Sourcing spend that was competed	In comparison to the spend volume, total spend that was competed and not sole-sourced	DoD executed 73% of strategic sourcing spend under competitive sourcing vehicles.
Small business spend as a percentage of total strategic sourcing spend	Strategic Sourcing contribution to socio-economic acquisition goals	DoD placed 41% of the total spend to small business.

The Military Services and participating Agencies/Components reported on the above metrics for all current strategic sourcing activities. The SSDB Metrics Working Group will continue to refine the measurements as strategic sourcing matures across the Department. This phased approach will help formulate more precise indicators of improved performance and success.

Governance

The SSDB thought leaders oversee the DoD strategic sourcing initiatives. As depicted in Figure 1, the SSDB interfaces with other governance bodies as needed to align strategic sourcing efforts across the Department.

Figure 1. DoD Strategic Sourcing Governance



* Directors Board consists of SSCG Leadership
** SSCG = Component level Strategic Sourcing Coordination Groups

The Department's strategic sourcing governance structure enables decision-making and oversight through the SSDB. In addition, SSDB meetings serve as a forum to align strategic sourcing efforts and share successes, experiences and lessons learned. The SSDB consists of thought leaders from the Components' Strategic Sourcing Coordination Groups (SSCG) and commodity teams. This past year, the SSDB expanded to include representatives from each Military Service (Air Force, Army, Navy, and Marine Corps) along with Other Defense Agencies, such as Business Transformation Agency (BTA), Small Business Program Office (SBPO), Networks Information and Integration (NII), US Transportation Command (USTRANSCOM), and Logistics & Material Readiness (L&MR). The SSDB met nine (9) times in FY06.

To address the critical importance of performance metrics, the SSDB established a Metrics Working Group in June 2006 to identify and define standard metrics for the yearly reporting. This working group, led by the Air Force, will refine the metrics as the strategic sourcing programs mature and data becomes more readily available.

At the direction of SSDB leadership, each of the SSDB-represented organizations with strategic sourcing activities underway completed a formal report documenting those activities through the fiscal year. The reporting templates provide a comprehensive view of the strategic sourcing activities of each of the primary organizations within DoD in a consistent format. These individual reports for FY06 are located in Section II of this report. Table 2 lists points of contact for SSDB members.

Table 2. SSDB Points of Contact

Name	Organization	Email Address
Mr. Shay Assad	OSD-ATL (DPAP)	Shay.Assad@osd.mil
Mr. Kenneth Brennan	ASN(RDA), DASN(ACQ)	Kenneth.Brennan@navy.mil
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Mr. Philip Clark	DLA	Philip.clark@dla.mil
Mr. Tim Clark	OSD-ATL (DPAP)	Tim.Clark@osd.mil
Mr. Jim Clausen	DoD CIO	James.Clausen@osd.mil
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Mr. Floyd Groce	DoN CFO in Support of DoD CIO	Floyd.Groce@navy.mil
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Ms. Linda Neilson	OSD-ATL (DPAP)	Linda.Neilson@osd.mil
Ms. Mary Overstreet	HQMC (I&L)	Mary.Overstreet@USMC.mil
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Mr. Bryon Young	ARMY ACA	Bryon.Young@us.army.mil

Commodity Councils

To date, the Department has established three DoD-wide commodity council pilots that support the acquisition of services. The councils are:

- Clerical Support Services, led by the Navy;
- Handheld Wireless Communications Devices and Services, led by the Army and Air Force; and
- Medical Health Care Services, led by the Army.

Additionally, the Enterprise Software Initiative (ESI) is a strategic sourcing effort, led by the Office of the Secretary of Defense (OSD) (NII) to provide software and integration services for technology support across the DoD.

AT&L provided oversight during the reporting year and worked with the councils to spur development and formalize reporting on current activities to OSD. The leads of each of the above initiatives currently participate in the Strategic Sourcing Directors Board to provide insight and lessons learned to DoD strategic sourcing leadership. Since these councils are currently in the pilot phase, this knowledge-sharing activity is a significant factor in the impact and success of future efforts at the Department-wide level.

Clerical Support Services

The DWSS approach to Clerical Services is to enable DoD-wide, cross organization sourcing of administrative and clerical support. Multiple award Indefinite Delivery Indefinite Quantity (IDIQ) contract vehicles have been set up by geographical region with Task Orders competed among available suppliers. The initiative used a comprehensive Request for Information, and the results from that enabled the issuance of an 8(a), HubZone, Service Disabled Veteran Owned Small Business (SDVOSB) set-aside solicitation (covering Philadelphia, Washington DC, & Norfolk regions).

Handheld Wireless Communications Devices and Services Update

This initiative covers wireless handheld devices, services (both voice and data), and related accessories, while streamlining vendor interaction and improving audit and asset management. The purchasing agreements provide consistent enterprise terms and conditions, eliminate some fees, provide aggressive pricing on both devices and service plans, and provide a new flat rate pricing option. This initiative provided significant lessons learned in the payoffs possible from Demand Management. Six Blanket Purchase Agreements (BPAs) were awarded in March-September 2006, and existing contracts will be transitioned by May 2007.

Medical Health Care Services Update

In the year, this initiative employed a Strategy Council to develop a coordinated approach for acquiring direct care medical services. The council focused on attracting quality providers and the use of commercial best practices, to streamline and standardize business processes for acquiring direct care medical services. Some of the Council's recommendations have become part of the Roadmap for Medical Transformation, and the Medical Health Services Office of Transformation will carry out implementation of those recommendations.

Enterprise Software Initiative Update

This initiative has been active since 1998, but continuously evolves and improves; thus, it provides a body of knowledge regarding both enterprise software licensing and the management of this type of strategic sourcing program. In the reporting year, the ESI has adapted to changes in DoD architecture, the growth in demand for new IT services, and has emphasized outreach and communications.

Benchmarking

To develop a level of standards for strategic sourcing processes and measuring success, the DoD strategic sourcing leadership benchmarked industry best practices from many leading strategic sourcing organizations, including Boeing, Proctor and Gamble, IBM and RAND. In addition, senior leadership participated in a benchmarking session with the Institute for Supply Management to understand the usage of strategic sourcing to manage services acquisitions in the commercial sector. DoD leveraged this benchmarking to develop DoD performance metrics.

Spend Analysis Tool

Spend analysis remains a key enabler of the strategic sourcing process. The Department is committed to delivering the Acquisition Spend Analysis Service (ASAS) as a method to capture, report, and analyze the spend data across the Military Services and Defense Agencies.

Under the ASAS project, the Army is leading the creation of a DoD-wide data mart for contract spend data. The goal is to provide a streamlined method by which managers at all levels can gain access to relevant agency and Department-wide spend data down to the contract sub-line item number level. This visibility will enable smarter acquisition decisions and identify opportunities and points of advantage for supply chain improvement. The BTA is managing this effort within the DoD with a goal of capturing 60 percent of DoD spending in ASAS.

As the Federal repository for contract action reporting, Federal Procurement Data Systems – Next Generation (FPDS-NG) provides spend analysis capabilities to the DoD. During this past year, FPDS-NG was analyzed from a strategic sourcing usage perspective to determine the level of usability that the FPDS-NG system could actually provide in terms of relevant information to strategic sourcing efforts. This analysis was able to document gaps between what FPDS provided and what the Department needs. OSD is working with the BTA to eliminate the gaps.

Education and Training

The Department of Defense is committed to facilitating widespread participation and appropriate learning outcomes in collaboration with the education and training community. OSD continues to leverage the existing education and training community to improve strategic sourcing understanding across the DoD acquisition workforce. The SSDB guides Department-wide efforts. Current initiatives aim to introduce strategic sourcing concepts and detail a variety of strategic sourcing processes and techniques.

In collaboration with the Defense Acquisition University (DAU), the Department is institutionalizing strategic sourcing education and training. The DAU Continuous Learning Center (CLC) now offers two (2) modules that focus on strategic sourcing. Strategic Sourcing Overview (CLC 108) provides a synopsis of strategic sourcing and familiarizes students with the steps in the process. Spend Analysis Strategies (CLC 110) describes a variety of spend analysis techniques and details how that analysis can be used to

assess strategic sourcing opportunities. In addition, strategic sourcing concepts are embedded in the Contracting and Management curricula (e.g., CON 100 and CON 353).

The Naval Postgraduate School (NPS) offers three strategic sourcing courses (MN3306, MN3307, and MN4374) as part of its Strategic Purchasing curricula. NPS also fields an Executive MBA program, a corporate business course targeted to senior Navy and DoD leaders, and a strategic purchasing distance education course. Each of these courses embodies a wide variety of strategic sourcing approaches, processes, techniques, and lessons learned.

DoD tracks utilization of formal strategic sourcing training. The Department is also investigating appropriate metrics to assess effectiveness of these educational initiatives. Finally, DoD continues to identify and remedy gaps in the knowledge, skills, and abilities of the acquisition workforce. Table 2 provides FY06 attendance figures for DAU and NPS courses. The individual reports in Section II detail additional service specific training in strategic sourcing.

Table 2. DoD Formal Strategic Sourcing Training

Defense Acquisition University		
Course Title	**Course ID**	**FY06 Attendees**
Advanced Business Solutions for Mission Support	CON 353	923
Strategic Sourcing Overview	CLC 108	146
Spend Analysis Strategies	CLC 110	95
Naval Postgraduate School		
Course Title	**Course ID**	**FY06 Attendees**
Strategic Purchasing	GE 3306	92
Navy Corporate Business Course		30
Strategic Purchasing	MN 3306	11
Entrepreneur in Purchasing	MN 3307	6
Seminar in Acquisition/Strategic Purchasing	MN 4374	3

Communications Strategy

The strategic sourcing communication strategy provides a unified approach and forum to support strategic sourcing activities across the DoD. It is a challenge to reach all the relevant stakeholders of strategic sourcing efforts. The execution spans beyond traditional procurement communities, reaching acquisition offices, customers, financial managers, and logisticians. The SSDB serves as the primary communication linkage across these DoD communities. The SSDB shares strategic sourcing practices and lessons learned, and passes on new and amended contract notices and policy announcements related to strategic sourcing. Additional communication channels include participation in conferences and forums, and working with other related governance boards throughout the DoD, including the Defense Business Systems Management Committee (DBSMC).

Finally, the Department will use the DAU knowledge sharing portal (https://acc.dau.mil/) as a means to communicate completed, on-going, and future activities of the strategic sourcing program.

Federal Activities

Within the Department of Defense, DPAP is the focal point for strategic sourcing activities initiated in the Federal Sector by OMB. During the past year, DoD has participated in many of the Federal strategic sourcing activities. Acquisition, Technology and Logistics (AT&L) aligned the governance concepts employed throughout the DoD Services and Agencies to support the creation of a proposed governance structure for the FSSI and submitted it to the working group tasked with propelling FSSI. Governance changes, if any, will occur in FY07. DoD provided support, via expertise within the Services and Agencies, to each of the FSSI initiatives. DoD also contributed thought leadership, insight, and lessons learned to the Federal Strategic Sourcing Working Group to develop the strategies and vision for Federal strategic sourcing activities.

D. Next Steps – Continued Improvement

The Department is taking action to improve the way it manages and acquires services. First, organizationally, we have consolidated the development of acquisition and procurement policy with the oversight of strategic sourcing of services. This action will result in a more cohesive and integrated approach.

Second, strategically, we have set a course to completely reassess the Department's strategic approach to services. This involves the examination of the types and kinds of services that we acquire and an integrated assessment of how to meet the needs of our warfighters while ensuring that the expenditure of taxpayer funds is wise and effective. The ongoing reassessment includes examination of how services are acquired by the Department or how they are acquired on its behalf by other Federal Agencies, such as GSA and the Department of the Interior.

Upon completion of the reassessment, we will develop an effective strategic sourcing deployment plan. We expect the plan to be completed in 2007. The fundamental tenets of our strategy will be straightforward: Ensure that we effectively and efficiently, in terms of both timeliness and cost effectiveness, acquire the services necessary to meet the needs of our warfighters. Underpinning our strategy will be the utilization of contracting tools that ensure competition whenever possible.

We will balance our goal to find areas where combined buying power will result in savings with our responsibilities to fulfill the socioeconomic goals of the Department. It is our belief that the use of competition, at all levels, is the most effective tool we have in the acquisition of services.

Third, tactically, we will implement our strategy with straightforward and simple tactical methods: 1) ensure that we clearly identify our requirement, 2) select the most efficient and effective tool to acquire particular services, 3) drive consistency and discipline across the Department, and 4) ensure that we have metrics and accountable individuals who will oversee performance.

Questions

Direct any questions regarding this report to Mr. Stuart A. Hazlett at stuart.hazlett@osd.mil.

II. Military Service and Agency Strategic Sourcing

A. Air Force

Air Force
Annual Report on Strategic Sourcing
Fiscal Year 2006

Executive Summary

The strategic sourcing process and acquisition transformational efforts are changing the culture of Air Force (AF) Contracting. By embracing the strategic sourcing process and the need for change, the Air Force is optimizing contractual performance, maximizing the utility of allocated AF resources, improving customer relations and support, increasing the achievement of socio-economic goals, improving vendor relations and responsiveness, improving quality of products and services, and improving the effectiveness and efficiencies of the acquisition process.

During fiscal year (FY) 2006, the AF is reporting on existing strategic sourcing initiatives contained within two domains: the Sustainment Domain and the Installation Domain. The Sustainment Domain consists of seven existing commodity councils covering consumable and repairable spends across all the major weapon systems maintained at the AF Logistics Centers (ALC). The Installation Domain consists of four existing commodity councils covering operations and maintenance spends at base-level, military installations. Further, AF Contracting is reporting on an installation realignment effort designed to capitalize on the benefits of the strategic sourcing process at the Installation Domain. In completing the FY06 input, the AF reports on the need for communication improvements and the establishment of policy to enhance the strategic sourcing process.

Lastly, the AF is reporting on a new strategic sourcing initiative anticipated to kick-off during FY07, and will focus on initiating the "year of training" about the strategic sourcing process.

Initiative Level Information

Sustainment Domain Commodity Councils

Under the Sustainment Domain, there are seven existing commodity councils, strategically operating over the past 3 years, supporting warfighter logistics on major weapon systems during depot-level maintenance at the ALC. Within the seven commodity councils, there are four strategically sourced business arrangements under three commodity councils: 1) one business arrangement for the aircraft structural commodity council, 2) one business arrangement for the communications and electronics commodity council, and 3) two business arrangements for the support equipment commodity council. The total FY06 spend within these strategically sourced business arrangements is over $21.4M, and 1.5% of this spend was competed. There is no small business prime contractor data to report.

Further, the successes realized in the ALC commodity councils are contributed to the strong foundation established when the councils were created, the maturity of the councils over the past 3 years, the coordinated efforts with the requirements generators, the teaming approach (e.g. customer, engineer, finance, contractor, and contracting on one team), the buy-in from all levels of weapon system warfighter

support to the strategic sourcing process, and the proper training, education, and awareness on strategic sourcing. As a result of these successes, ALC commodity councils seized upon previously forgone opportunity costs (e.g. shorter admin time, shorter production time, lower costs, less contract actions) contributing to a successful strategic sourcing process and program.

All three commodity councils with reportable strategically sourced business arrangements are individually addressed as follows.

Aircraft Structural

At the Warner-Robins ALC, the aircraft structural commodity council supports various aircraft across the AF inventory, supports customers AF-wide, and produces numerous benefits to include: reduction of Administrative Lead Time (ALT) from 114.8 to 60 days; reduction in average number of backorders from 14.5 to 10; reduction of average repair days from 38 to 30; reduction of average mission capability (MICAP) incidence from 92 to 83; reduction of average MICAP hours from 9,450 to 8,505; and reduction of number of contracts from 5 to 1.

Communications & Electronics

At the Warner-Robins ALC, the communications and electronics commodity council supports various aircraft across the AF inventory, supports customers AF-wide, and produces numerous benefits to include: reduction of average number of days a commodity remained in a shop from 116 to 110 days; reduction of ALT from 102 to 10 days; reduction of Production Lead Time (PLT) from 213 to 190 days; and reduction of the number of contracts from 36 to 1.

Support Equipment

At the Warner-Robins ALC, the support equipment commodity council supports various aircraft across the AF inventory, supports customers AF-wide, and produces numerous benefits to include: a technological methodology advantage from repair to remanufacture; reduction of ALT from 417 to 3 days; reduction of PLT from 185 to 37 days; reduction in National Stock Numbers (NSN) from 190 to 3; and an additional technological advance in changing from analog to digital.

Additionally, there are four existing commodity councils providing strategic sourcing efforts involving customer relationship management (CRM), integrated supply chain management (SCM), strategic purchasing (e.g. consolidating contracts, leveraging buying power), and supplier relationship management (SRM) at the ALC. The four commodity councils are 1) an accessories commodity council, 2) a landing gear commodity council, 3) a propulsion commodity council, and 4) a secondary power commodity council. Under these commodity councils, there are no strategically awarded business arrangements, but there is an anticipation of awarding strategic business arrangements for each commodity council during FY07. As a means to ensure success to these strategic business arrangements, there are eight existing Commodity Acquisition Management Plans (CAMP) approved and actively covering the four commodity councils. The CAMP is an acquisition planning document designed to provide strategic planning to acquire and manage all requirements pertaining to a certain class of commodities leading to a strategically sourced business arrangement. In completing the reportable information on these four commodity councils and with the absence of strategically sourced business arrangements, there is no reportable data on the total dollar amount of spend, the percentage of business arrangements competed, and the information about small business results pertaining to these commodity councils.

All four commodity councils are in the process of developing strategically sourced business arrangements, and are addressed individually as follows:

Accessories (formally Aircraft Accessories & Instruments)

At Oklahoma City ALC, the strategic design of the CAMP is to award multiple business arrangements covering a $1.7B Sustainment spend supporting various aircraft across the AF inventory, supporting customers AF-wide, and producing opportunity cost realization. The strategic business arrangement is anticipated for award during FY07, and to award to 100% small business. Projected opportunity costs savings are anticipated in the reduction of ALT, PLT, total number of contracts, total number of contract actions, war ready material (WRM), unit cost, and an increase in reliability. Part of the CAMP strategy during FY07 is to develop a strategic 10 year business arrangement covering a $200M spend in order to capture "power by the flight hours," which includes partnering with the ALC for repair of the weapon system accessory items.

Landing Gear

At Ogden ALC, the strategic design of the CAMP is to award multiple business arrangements covering a $1.5B Sustainment supporting various aircraft across the AF inventory, supporting customers AF-wide, and producing opportunity costs realization. The strategic business arrangement is anticipated for award during FY07, and to award to 100% small business. Projected opportunity costs savings are anticipated in the reduction of ALT, PLT, total number of contracts, and annual MICAP hours.

Propulsion

At Oklahoma City ALC, the strategic design of the CAMP is to award a business arrangement covering a $490M Sustainment spend supporting various aircraft across the AF inventory, supporting customers AF-wide, and producing opportunity costs realization. The strategic business arrangement is anticipated for award during FY07. Projected opportunity costs savings are anticipated in the reduction of ALT, PLT, total number of contracts, total number of contract actions, pipeline assets, and administrative costs.

Secondary Power

At Ogden ALC, the strategic design of the CAMP is to award a business arrangement covering $1.7B Sustainment spend supporting various aircraft across the AF inventory, supporting customers AF-wide, and producing opportunity costs realization. The strategic business arrangement is anticipated for award during FY07. Projected opportunity costs savings are anticipated in the reduction of ALT, increase in on-time delivery, cost reduction, and increase in organic depot-level repair capability.

Installation Domain Commodity Councils

Under the Installation Domain, there are four existing AF commodity councils supporting the Installation Domain. Within these four commodity councils, there are 18 strategically sourced business arrangements under two commodity councils: 1) 8 business arrangements under the Information Technology Commodity Council (ITCC), and 10 business arrangements under the Medical Services Commodity Council (MSCC). The total FY06 spend within the ITCC is $181.3M, with a realized 24.6% small business goal based upon an established 6% AF goal, and 100% of the spend was competed. The total FY06 spend within the MSCC is $40.7M, with 100% to small business, and 100% of this spend was competed. The two commodity councils are addressed individually as follows:

Information Technology

The ITCC is active with two separate commodity council strategic initiatives: 1) seven strategic business arrangements for desktops/laptops, and 2) one strategic business arrangement for computer licensing.

Under the desktop/laptop business arrangement, the strategic sourcing initiative involves a Quarterly Enterprise Buy (QEB). The QEB is a strategic sourcing process involving the centralizing/consolidation of requirements throughout the AF at one location, leverage buying power at one location, lowering per unit cost, maintaining minimal computer configurations, reducing contract actions/administration, and partnering with industry to capitalize on AF-wide supply/demand. Due to using the QEB, the realized opportunity cost savings are reducing mainframe configurations from 1,000+ to 4, reducing total number of contracts from 1,000+ to 7 Blanket Purchase Agreements (BPA), and reducing the overall cost of an IT system from $1,100 to under $500. As a result of the QEB strategic approach, there was cost avoidance in FY06 equating to $32.5M.

Under the second ITCC business arrangement, the strategic sourcing initiative was establishing strategic licensing business arrangements. Due to the licensing business arrangements, the benefit of strategic consolidation of 38 decentralized software contracts and 9 support contracts into 1 centralized licensing agreement is an estimated cost savings of over $100M over a 6 year period. Other benefits include standardizing security settings and lowering lifecycle costs by centralizing and streamlining the process of developing and managing a secure computing environment for each computer on the AF network.

Future ITCC strategic sourcing efforts involve digital printing and imaging (DPI). Under this initiative, the ITCC is focusing on reducing cost per unit, changing consumption and volume of use, and improving efficiencies by centralizing management of the requirements and funding processes into an automated e-base tool. The overall benefit is anticipated between 10-20%, and strategy commencement is anticipated for award during FY07.

As an added note, the ITCC is partnering with the Army on strategically sourcing wireless services under a “Cellular Communication Strategy”. Key result of this partnership is the award of four BPAs covering cell phone service to capitalize reducing cost per unit, lower airtime service, change consumption/volume through demand management, standardizing end-items/services, streamlining ordering/payment processes, and improving requirements generation.

Medical Services

The MSCC is active with ten strategically sourced business arrangements to date, and based upon its success, the MSCC is pursuing other strategically sourced business arrangements.

In the initial strategic business arrangements, the strategic sourcing strategy was focused on the requirement pertaining to 73 Primary Care Elements (PCE). The MSCC focused on PCE requirements to standardize and produce continuity of medical care services across AF installations. So, the MSCC found it beneficial to leverage the standardization of 124 pre-written position descriptions, and procure 480 full-time equivalent (FTE) positions covering 48 AF installations. In order to maximize utility, the MSCC decentralized task orders to the installation, centralized buying power, and significantly reduced contract award/administration by an estimated 175 staff-hours per task order. A noteworthy MSCC accomplishment was the ability to source and fill PCE for an AF-wide 144 primary care physician accession shortfall. The PCE shortfalls were due to manning constraints caused by forward deploying military PCE to support the Global War on Terrorism (GWOT). To overcome the military PCE shortfall, the AF strategically used the MSCC business arrangements to fulfill PCE gaps at the Installation Domain.

In pursuit of the next MSCC spiral, the strategic sourcing strategy is to focus on the Medical Administration Support Services requirements arena. The strategic sourcing strategy behind administrative support service requirements is to reduce service variations in the requirement, and standardize the way medical administrative services are performed across all the Military Treatment

Facilities (MTF) in the Installation Domain. The anticipated award of the second strategic business arrangement is during FY07.

As an additional note, another in-process strategic sourcing initiative is to expand these strategic sourcing business arrangements coverage/capabilities to OCONUS locations, and leverage the capabilities within the business arrangements to support overseas medical community requirements.

Additionally, there are two existing commodity councils providing strategic sourcing efforts involving spend analysis, market intelligence (e.g. research, availability, pricing, competition), requirement generation, requirement consolidation, leveraging buying power, and establishing strategic business arrangements at the Installation Domain. The two commodity councils are 1) an office furniture commodity council, and 2) a force protection commodity council. Under these commodity councils there are no strategically sourced business arrangements, but there is an anticipation of awarding strategic business arrangements for each commodity council during FY07. As a means to establish a foundation for strategic business arrangements, both commodity councils are in the process of establishing commodity council Charters to ensure core membership to the council and obtain buy-in from senior leadership responsible for the spend within the commodity. In completing the reportable information on these two commodity councils and with the absence of strategically sourced business arrangements, there is no reportable data on the total dollar spend, the percentage of business arrangements competed, and the information about small business results pertaining to these commodity councils. The two commodity councils are individually addresses as follows:

Office Furniture

The initial team is currently analyzing historical purchase data for the AF and Air Mobility Command (AMC), along with general U.S. furniture market trends. Once this commodity council is established, it will be a cross-functional team including members and support personnel from Contracting, the Civil Engineer Design Center, contractor consulting support, with contacts from various vendors, the AMC Government-wide Purchase Card Program Coordinator, Finance, and procurement systems personnel from AMC bases. Outcomes and benefits of this acquisition include establishment of quality and life cycle standards, improvement of demand management, decrease in number of contracts and related administrative costs, improved volume leveraging for decreased costs, and improved operating efficiency from acquisition throughout administration. AMC spend on office furniture is estimated to be more than $20M annually. Early analysis supports a projected savings of between 6–9% of this annual spend.

Force Protection

AF Security Forces recognizes the need to strategically source their requirements in the commodity areas of security guard services and force protection end-item requirements.

During FY06, an Opportunity Assessment (OA) was completed on the spend analysis and requirements generation within Security Forces (SF). To effectively strategically source requirements, SF is standing up a Force Protection Commodity Council (FPCC). In analyzing the OA, there is a $23.4M installation spend on security guard services, and a $64M installation spend on end-item requirements. The FPCC is seeking to strategically obtain centralized requirement generation, standardize services and end-items requirements, and leverage buying power to realize potential monetary and non-monetary savings. Under the FPCC construct, the AF has already realized a noteworthy strategic sourcing result with the standardization of a performance work statement on security guard services implemented at the AF Installations Domain, CONUS-wide.

Installation Realignment

During FY06, a business case analysis (BCA) was completed on exploring the premise that the contracting personnel supporting the Installation Domain are not appropriately aligned to take full advantage of strategic sourcing opportunities. The BCA did indeed prove the premise and concluded Installation Contracting personnel require realignment to better leverage strategic sourcing opportunities to improve customer service, reduce purchasing costs, increase quality, leverage AF-wide spend capabilities, optimize the skills and experiences of acquisition personnel, improve contracting efficiencies, and accelerate delivery timeframes. The background data on Installation Contracting revealed there is an annual spend of $13B throughout 71 buying activities involving approximately 3,300 personnel. By realigning in accordance with the BCA, the AF can capitalize on existing resources and capabilities to properly execute the strategic sourcing process and improve support to the warfighter. Currently, the realignment proposal is under high-level AF review for approval and implementation.

Communication

The key to success of all AF strategic sourcing efforts is the ability of the AF to effectively and efficiently communicate the existing and future strategic sourcing strategies to essential stakeholders both within and outside of the AF. In communicating AF strategies, the AF has to devise a strategic communication plan. Currently, the AF is developing a strategic communication plan designed to capture mediums to communicate over, foster one consistent message, provide an end-state vision, champion new strategic sourcing initiatives, facilitate knowledge sharing, and establish open avenues of communication.

AF Contracting views the "year of training" initiative (see section on training) as one means to communicate the strategic sourcing process. Moreover, AF Contracting is developing a communication plan to ensure all stakeholders receive and understand the strategic sourcing message, to include Congressional delegations impacted by strategic sourcing initiatives (i.e. Installation Realignment). Key areas of communication include partnering with functional and requirement communities/generators, sharing lessons learned, leveraging workforce capabilities, and establishing more strategic business arrangements. In return, it is imperative AF Contracting communicates the existence of these strategic sourcing contracts across the AF enterprise.

During FY07, AF Contracting is focusing on realigning Installation Contracting, implementing a "year of training," and executing a communication plan. Realignment efforts require furtherance of the BCA into an implementation plan, execution plan, deployment plan, change management plan, and communication plan. The key to success of the realignment is the ability to communicate not only the need for change, but how to effect such a change, and its impact on other AF functional activities. To truly effect such a cultural change, AF senior leadership has to provide a sincere commitment of support on communicating a consistent message about the need for Installation Contracting realignment. It is evident the AF has to effectively and efficiently communicate because of the impact all these strategic sourcing initiatives have upon the acquisition culture within the AF.

Policy

The AF has formalized the strategic sourcing process by placing guidance into the Air Force Federal Acquisition Regulations Supplement (AFFARS) Instructional Guide (IG). By formalizing guidance, the AF continues to establish a framework of rules governing and promoting the efficient operation of strategic sourcing initiatives. Additionally, the AFFARS IG legitimizes and provides standardization of the strategic sourcing process, so the AF workforce has a baseline to work from.

Strategic Sourcing Process Training

During FY07, AF Contracting is focusing on the "year of training". The focus of this training is to provide education and awareness on the strategic sourcing process to the acquisition workforce, customer-base, and contractor community impacted by strategic sourcing. In reaching out to these three entities, it is the AF's intent to provide a three stage approach to providing total training on strategic sourcing. First approach will focus on the AF Contracting Installation Domain workforce consisting of approximately 3,300 professionals. Second approach will focus on the contracting customer-base (e.g. requirements generators) consisting of tens of thousands functional representatives. Third approach will focus on training and awareness to thousands of contractors in an effort to partner with industry. The total training will focus on the need to change an AF culture from a tactical to strategic approach to requirements generation and acquiring goods/services. In order to institute this cultural change, the training will emphasize the importance of implementing and understanding that strategic sourcing is a "force multiplier" capable of effecting the necessary AF cultural change. Two secondary effects of training are maintaining current acquisition skill-level sets, and developing new skills sets with emphasis on understanding requirements through a market intelligence approach to strategic sourcing. Understanding market intelligence will provide the AF with the in-depth capability of capturing, leveraging and understanding the market place and market place economics. For example, within the ITCC, the AF gained a valuable understanding of their customer's requirements and the requirement's market place to implement strategies, which have increased user satisfaction, while reducing cost. By using similar examples as part of the strategic sourcing training process, the AF can convey the right practical experiences to the total workforce for the necessary cultural change on understanding and implementing strategic sourcing.

Aside from the "year of training," the AF can leverage off of Air Force Materiel Command's (AFMC) successes with developing core competencies with regard to market intelligence. The market intelligence used by AFMC focusing on the development of skill sets pertaining to the total market intelligence, and centered on the strategic nature of the whole requirement's process, establishes a core baseline the AF can capitalize on in developing the 3-stage training approach. Further, AFMC has tackled and succeeded with a training program based upon the aforementioned commodity councils' efforts within the ALC's Sustainment Domain. Thus, AFMC trains their workforce and refers to their market intelligence approach as Purchasing and Supply Chain Management (PSCM). PSCM's are training modules designed to educate personnel on strategic sourcing and commodity councils. In leveraging AFMC's training modules, the AF seeks to enhance training capability for strategic sourcing and build the right skill sets required toward the new realignment construct impacting the Installation Domain. Currently, the AF is working with the Defense Acquisition University (DAU), Federal Acquisition Institute, and the Naval Postgraduate School on these new training requirements. To date, DAU has established a noteworthy Strategic Sourcing Community of Practice (CoP). The CoP remains a world-class repository of spend analysis data, acquisition strategy development information, sample contracts, lessons learned and best practices.

Conclusion

The Air Force is proactively implementing strategic sourcing. As a result, the AF has realized noteworthy successes in the utilization of the strategic sourcing process to produce AF-wide commodity councils. In the AF strategic plan, there are designs to continue with existing strategic sourcing efforts and expand the strategic sourcing process AF-wide. Should you have any questions regarding AF strategic sourcing efforts, please contact the Office of the Assistant Secretary (Acquisition), Deputy Assistant Secretary (Contracting) at 703-588-7070.

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B. Army

Department of the Army
Annual Report on Strategic Sourcing
Fiscal Year 2006

Executive Summary

Introduction and Overview of Report

The Army has made significant strides towards achieving its strategic sourcing objectives, which have resulted in a savings of over $75 M during Fiscal Year 2006. Within this past year, the Army has identified and sourced 2 commodities including Wireless devices and Clerical Support, and has led the Direct Care Medical Services Commodity Council. The Army has collaborated on DoD-wide as well as component-level efforts, which have resulted in operational savings estimated at $20M.

The Army is building upon its functional organizational and command structure to facilitate and further the initiatives of commodity management and strategic sourcing. Medical products, services, and research are exclusively managed and sourced through the Army Medical Command. Major weapon systems and equipment, material, and related logistics support are primarily managed and sourced through the Army Material Command. Garrison and Base operations support for Army installations is managed by the Army Installation Command with procurement support provided by the Army Contracting Agency. Major construction is managed and sourced by the Army Corps of Engineers. Strategic transportation services are managed and procured by the Army Surface Deployment and Distribution Command. Within this management structure, the Army has also spent much of the year building internal strategic sourcing expertise, learning to implement strategic sourcing in the federal setting, and setting up a foundation to further promote strategic sourcing within the Component. This education will support the identification and successful implementation of additional strategic sourcing initiatives during FY2007, including multiple initiatives within the Army's Installation Management Command, the U.S. Army Medical Research Acquisition Activity, the Army Material Command, and the Army Contracting Agency.

While the Army has developed strong expertise in identifying opportunities and leading them through the contract award, it will spend the next Fiscal Year on integrating lessons learned to deliver a streamlined and holistic implementation of the awards, which includes a strategic sourcing program governance, communication strategies, and ongoing collaboration with suppliers.

Strategic Sourcing Goals

The Army's established strategic sourcing goals are to:

- Establish enterprise-wide cross-functional acquisition strategies
- Reduce Total Cost of Ownership for acquired goods and services
- Improve ability to meet socio-economic goals
- Standardize acquisition business processes
- Improve the skills of acquisition community

These goals are in direct support of the Army's mission and will lead to our ability to consolidate similar and common use contracts to reduce redundancy and leverage economies of scale; complete the implementation of centers and satellites contract requirements consolidation; and reduce management overhead and realign personnel to maximize efficient and effective operations. Our goal is to continue to implement that process while encouraging the Army to participate in the Strategic Sourcing environment, garnering an even greater share of resource savings and efficiencies.

Metrics - Strategic Sourcing Activities

Total number of current strategic sourcing activities, initiatives, and commodity councils for the U.S. Army are as follows:

Strategic Sourcing Program	Total for FY2006
Activities:	5
Initiatives:	10
Commodity Councils:	7

Communications Plan

The Army has begun to build a component-level communication plan. Finalization and implementation of the communication plan will occur in FY2007. The objectives of the communication plan are to:

- Identify stakeholders across the Army including major requiring activities and contracting offices, understand their needs/issues
- Outline a plan for communicating with stakeholders, including messaging and tools to be used, timing of each communication and person responsible for delivering the communication
- Create awareness and knowledge of strategic sourcing efforts and their benefits across all stakeholders and facilitate "buy in"
- Ensure program transparency and accountability
- Support cultural and behavioral changes required within stakeholder groups in order for the initiatives to be successful
- Prevent communications from becoming a program "afterthought" – which can result in stakeholder confusion and frustration and potentially hurt adoption, and
- Speed adoption of strategic sourcing best practices throughout DoD

The need for a strong, organized communications plan is critical at the component-level as well as the individual commodity-level. The Army also plans to encourage communications planning and implementation at the commodity-level.

Other

The Army has learned from various challenges during the past year. These lessons will be leveraged during future strategic sourcing efforts. These include:

- **Formalized Processes.** Future strategic sourcing efforts will be based upon formalized methodologies that provide direction from the opportunity assessment through the implementation phase. A successful implementation requires a comprehensive process which

projects a roadmap that manages the impact of the strategic sourcing initiative on the people, process, policy, and in some cases, also technology of the organization.

- **Meeting socio-economic goals**. Traditionally, strategic sourcing focuses on reducing the total cost of ownership. In the federal environment however, we aim to reduce the total cost of ownership *while meeting socio-economic and environmental requirements*. This sometimes leads to the selection of awardees who may not present the lowest price. While this presents a challenge to strategic sourcing, the Army understands the importance of meeting these federal objectives, and has identified commodities which specifically lend themselves to meeting socio-economic goals, while reducing the total cost of ownership.

- **Successfully operating within a decentralized purchasing environment.** The Army procurement function operates on a decentralized basis. For example, although Blanket Purchase Agreements (BPA) are awarded by a central authority, the purchasing and obligation of funds occurs in a decentralized fashion (e.g. individual installations). This has caused challenges in tracking performance metrics and centralized reporting, and the Army is looking into several options that will provide a solution to collect the needed information while operating in a decentralized environment. One of these options includes collection of data from suppliers.

- **Collaboration with Supplier**. The Army plans to make additional efforts towards collaborating with the supplier community to further optimize the strategic sourcing initiatives. Collaboration with suppliers should occur from the request for information and requirements generation phase and continue post-implementation. The Army has found, for instance, that collaboration with suppliers has provided a means to assist our wireless implementation efforts, by providing strong baseline pricing data and also identifying users requiring transition to the newly established vehicle.

Initiatives

Name Of Acquisition: Army Contracting Agency (ACA), Information Technology, E-Commerce and Commercial Contracting Center (ITEC4) Army Desktop and Mobile Computing (ADMC) Consolidated Buy

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome/benefits?

Scope: Army Small Computer Program (ASCP) and the Information Technology, E-Commerce and Commercial Contracting Center (ITEC-4) developed negotiated bulk purchase pricing for commercial desktops and notebooks. Army Desktop and Mobile Computing (ADMC-1) blanket purchase agreements were used to consolidate Army requirements and result in efficiencies and cost saving while satisfying networthiness goals through standardized capabilities. By using the ADMC-1 agreements, the process established allowed flexibility in selecting original equipments manufactures and vendor providers, in accordance with applicable laws and regulations.

Desired outcomes/benefits*:* The desired outcome is to consolidate most of the Army requirements for desktops and notebooks into semiannual buys to maximize cost savings through volume discounts. The Army consolidated buy has taken place two times per year, starting in August/September 2005. ADMC-2 IDIQ contracts will be utilized starting in FY07 for the Consolidated Buy (CB).

Who, if anyone, are you working with on driving the initiative?

Army Small Computer Program (ASCP), U.S Army Network Enterprise Technology Command (NETCOM), Army Chief Information Officer (CIO/G-6), Information Technology, E-Commerce and Commercial Contracting Center (ITEC-4), and Army customers.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole source).

Highly Competitive.

Describe what drives the requirement around this category.

The Office of the Secretary of the Army (Chief Information Officer/G-6) has directed that all Army requirements for Desktop and Notebook computers be consolidated into semiannual buys. Mission critical requirements and those requirements not satisfied by the CB specifications may be satisfied at any time utilizing the Exception Process. The Exception Process allows customers to receive an exception from the CB to buy their desktops and notebooks elsewhere, which is approved by an O6 or GS/15 (or equivalent) at the customer activity.

How is the sourcing strategy today different from what you have done in the past?

Previously, individual customers determined their required configuration and negotiated additional discounts off of the contract price. By standardizing two configurations for desktops and two for notebooks under the CB, and negotiating pricing based on estimated volume, the Army has incentivized

the contractors to lower pricing without changing the quality of the product or delivery and warranty terms. The CB process allows customers to select the best value product from all of the contractors.

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?

What is the current status?

The Consolidated Buy is held twice a year in the months of February thru March and again in August thru September.

When are your next steps and actions to be completed?

The next CB will be held in February and March 2007. To prepare for it, lessons learned will be assessed to see if any adjustments in the process need to be made.

What are the proposed dates for the final product (for example, a finalized plan and/or contract award date?)

Continuing the CB, while assessing changes in the market and customer's requirements to make any changes necessary to make it even more successful.

Metrics

Total spend covered within initiative ($):

CB Total Qty Sold	CB1	CB2	CB3	
Desktop Purchases	26,629	14,466	53,824	94,919
Notebook Purchases	11,439	5,481	34,767	51,687
	38,068	*19,947*	*88,591*	

CB Total $				CB Total $
Category	CB1	CB2	CB3	Total
Desktop Purchases	$16,943,449	$10,920,728	$37,606,199	$65,470,376
Notebook Purchases	$11,941,590	$ 5,892,778	$40,332,604	$58,166,973
	$28,885,039	*$16,813,506*	*$77,938,803*	

Total cost avoidance ($, schedule, resources and/or performance), e.g., reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance.

CB Total $ Avoidance				CB Total $ Avoidance
Category	CB1	CB2	CB3	Total
Desktop Purchases	$8,055,494	$ 6,166,104	$21,292,181	$35,513,779
Notebook Purchases	$3,669,807	$ 2,701,303	$ 9,817,271	$16,188,380
	$11,725,300	*$ 8,867,407*	*$31,109,452*	*$51,702,159*

Small business spend before and after initiative (% change and direction): Unknown

What were the SBA goals? N/A

Lessons Learned, including Limitations and Best Practices/Success Stories

What do you recommend future initiatives do to be successful?

The Army Consolidated Buy process was developed after assessing lessons learned from a similar effort by the Air Force. The Army team met with the Air Force and vendors to obtain lessons learned from their process. The differences between the Army and Air Force structure for funding and administering IT acquisition were taken into account.

The success of the Army Consolidated Buy is built on a combination of factors. First, you need to have high level support and policy to communicate the initiative and to make it mandatory so customers utilize it. Next, you need to ensure that customers still have a level of choice so they are happy with the end product. Another factor that contributed to success was the incentive to industry. By allowing customers to choose between all of the contractors proposals, and not establishing one “winner” of the CB orders, contractors are able to offer better pricing, still meet required deliveries, and not be pushed to offer unsustainable prices. An initiative that creates a win-win situation for all parties is the best approach for sustainable strategic sourcing.

Name Of Acquisition: Army Contracting Agency, Southern Region (ACASR), CONUS Support Base Services (CSBS) Indefinite Delivery Indefinite Quantity Multiple Task Order Contract Enterprise Solution

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome/benefits?

Scope: The CSBS contract is the primary vehicle for the Installation Management Command (IMCOM) garrisons to obtain quality bulk labor for non-government in nature (GIN) tasks that exceed organic capabilities. The Global War on Terrorism (GWOT) and Army Transformation have caused major surges related to Active Component (AC) deployment/redeployment and restationing, and Reserve Component (RC) mobilization/demobilization and medical holdover (MHO) support. The CSBS contract is designed to provide these garrison augmentation services through a flexible, Multiple Award Task Order Contract (MATOC) that obtains the needed support without creating excess capability. Services ordered through the CSBS master contract will relieve military units and personnel from providing those non-GIN functions addressed in the 12 task areas of the contract.

Desired outcomes/benefits: The approved acquisition strategy for the CSBS acquisition included the following objectives:

- obtain a long-term contract approach that will provide just-in-time services in support of the Power Projection Platforms and Power Support Platforms (PPP/PSP) mission;
- mitigate reliance on Reserve Component (RC) units and reduce the need to mobilize significant numbers of RC forces;
- provide IMCOM garrisons the flexibility to respond to surges and changing mobilization requirements as needed;
- allow garrisons to contract for specific skills, functions, and duration to match workload;
  - allow for better utilization of installation facilities;
  - implement and execute requirements at each garrison; and,
  - replace short term solutions currently in place

Who, if anyone, are you working with on driving the initiative?

CSBS is a partnership between IMCOM and the Army Contracting Agency Southern Region (ACASR).

Describe the nature of the "market" (undifferentiated, highly competitive, or sole source).

The market is highly competitive and includes highly qualified small business concerns.

Describe what drives the requirement around this category.

The driving force behind the requirement is IMCOM's need to support the Active Component (AC) deployment/redeployment, restationing, and Reserve Component mobilization/demobilization and Medical Holdover garrison augmentation mission.

How is the sourcing strategy today different from what you have done in the past?

Previously, the RC Garrison Support Units (GSU) and CONUS Support Base (CSB) Units provided the support for mobilization operations. However, the GSUs and CSBs could only stay on active duty for a period of two years and eventually were released from active duty in 2004, thereby creating a need for continued contractual support.

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?

The requirement has been implemented and the goals and objectives of the strategy are currently being achieved. The CSBS Multiple Award ID/IQ contract was awarded on 12 November 2004 to seven contractors who are all small business concerns.

What is the current status?

Currently, the CSBS contract is being used, task orders are being issued, and the mobilization operations are well supported at the various 16 PPP/PSP installations across the country.

The CSBS multiple award contract base period of performance is 1 July 2005 through 30 June 2006, with four one-year option periods. The option periods are as follows:

First Option Year:	**1 July 2006 through 30 June 2007**
Second Option Year:	**1 July 2007 through 30 June 2008**
Third Option Year:	**1 July 2008 through 30 June 2009**
Fourth Option Year:	**1 July 2009 through 30 June 2010**

The CSBS contract is currently in the First Option Year Period. Task orders may be issued during these periods by Ordering Offices as required.

When are your next steps and actions to be completed? See above.

What are the proposed dates for the final product (for example, a finalized plan and/or contract award date?) See above.

Metrics

If data is not available, please provide an explanation. (Be sure to include a baseline measurement for each metric.)

Total spend covered within initiative ($):

The ceiling for the CSBS ID/IQ MATOC is $1.3 billion and is calculated collectively across all task orders and carefully monitored at the Program Level.

Total cost avoidance ($, schedule, resources and/or performance), e.g., reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance.

As stated above, CSBS was created to satisfy requirements manifested by the GWOT. Effectively, contract services are provided to augment functions/services previously provided by the Government

workforce, thereby permitting Government resources to be reallocated to support GWOT efforts. As such, the price for contract augmentation services is in addition to the costs paid for the existing Government workforce (inclusive of both military and civilian personnel). The CSBS requirements were initially competed to establish the Multiple Award Indefinite Delivery, Indefinite Quantity (MAIDIQ) arrangement. As specific requirements are identified, each of the awardees is afforded the opportunity to submit offers to satisfy the requirements, thereby continuing the competitive process. This arrangement allows the Government to satisfy these critical requirements expeditiously through the existing MAIDIQ, and effectively through an arrangement that provides for continuous competition. Specific cost avoidance calculations have not been attempted as there was no baseline (preceding acquisition) to compare to. In many cases, installations used temporary Government employees to fulfill these requirements prior to executing task orders under the CSBS MAIDIQ. Data regarding the cost of these employees was not made available to ACA-SR. An attempt to calculate time savings through use of this existing contract arrangement as opposed to creation of new contract arrangements would be purely speculative and could not reasonably entertain the variations unique to each task order awarded.

The following provides a summary of actions awarded during FY 2006, and the statistics compared to the metrics established for this program:

Results from the First Year's Performance:

Since 1 July 2005, ten CSBS task orders have been issued across the country by various ordering offices. Most notable is that six of the ten task orders totaling $5.5 million were awarded during the month of September 06, at the peak of the year-end crunch. This marks the greatest use of the CSBS contract since award and a very successful showing in Fourth Quarter, FY 06. Also noteworthy is that six of the seven CSBS contractors have received task orders and most of the orders have three to four one-year option periods.

At the time of this report, CSBS task orders total approximately $18.8 million obligated in support of IMCOM's mobilization and deployment operations during the first year of actual performance.

The following are the metrics that were established in the approved acquisition strategy:

Task Order Level Metrics:

The task orders for CSBS will require submission of contract performance and cost reports, status briefings, and/or final reports for the task order effort. In addition, a Quality Assurance Surveillance Plan (QASP) will be developed and used to assure that systematic quality assurance methods are used in the administration of task orders. A Contracting Officer's Representative (COR) will be appointed to assist with the administration of each task order.

Contractor performance will be assessed not less than once during the life of the task order. The task order metrics will be established based on the specific task order circumstances and will include quality of service, cost effectiveness, timeliness of performance, business relations and customer satisfaction. Task order performance will be assessed by the COR and monthly reports will be provided to the Contracting Officer.

Contract Level Metrics:

Metrics will be established at the CSBS contract level based on the quality of the task order performance, responsiveness, competitiveness and schedule. The Contracting Officer and COR reports will be captured for semi-annual submission to IMCOM to assist in determining the success of the CSBS Program.

Quality of Service – 95% of the task orders will be satisfactorily completed without customer complaint or rework. Actual performance rating will be based on COR reports, Past Performance Information Management System (PPIMS) and other available information in relation to task order requirements and customer satisfaction.

Schedule – 95% of the task orders will be satisfactorily completed on schedule without subsequent modification. Actual performance rating will be based on COR reports, PPIMS and other available information in relation to performance schedule.

Cost – 100% of all task orders will be completed within 3% of the negotiated cost for task order.

Monitor competition to ensure contractors are getting a representative portion of the work.

Program Level Metrics:

An annual assessment will be performed at the program level. The second Annual CSBS Metrics Assessment Report was submitted to DASA (P&P) on 31 October 2006. This assessment included metrics as follows:

Customer Satisfaction – 95% of customer survey responses will reflect satisfaction with service provided.

Actual performance rating will be based on responses received to customer surveys.

Timeliness – Contactor is able to meet "boots on ground" rate when relevant factors are within the contractor's control on 95% of task orders.

APPROVED METRICS PROGRESS:

Most of the CSBS task orders were recently issued; however, ACASR has documented the performance rating of four contractors who have been performing from 4 to 12 months. This information is based on the Contracting Officer's Representatives' monthly reports and other available information in relation to task order requirements and customer satisfaction. The current metrics ratings are as follows:

Quality of Service: 100 %	
Contractor: Eagle Systems and Services	Location: Fort McCoy
Contractor: Eagle Support Services	Location: Fort Campbell
Contractor: Omega Training Group	Location: Fort Campbell
Contractor: The Logistics Company	Location: Fort Bragg

The above contractors' performance is excellent and without customer complaint or rework. It has been reported that the quality of service provided by The Logistics Company at Fort Bragg is outstanding.

Schedule: 100%	
Contractor: Eagle Systems and Services	Location: Fort McCoy
Contractor: Eagle Support Services	Location: Fort Campbell
Contractor: Omega Training Group	Location: Fort Campbell
Contractor: The Logistics Company	Location: Fort Bragg

The above contractors are completing the task orders on schedule without modification.

Cost: Task Orders are currently being completed within 3% of the negotiated cost.	
Contractor: Eagle Systems and Services	Location: Fort McCoy
Contractor: Eagle Support Services	Location: Fort Campbell
Contractor: Omega Training Group	Location: Fort Campbell
Contractor: The Logistics Company	Location: Fort Bragg

There have been no cost overruns from the contractors and there are no significant cost or performance problems. All of the contractors are working within budget and have not billed for additional costs.

Small business spend before and after initiative (% change and direction)

What were the SBA goals?

Market research indicated that the CSBS requirement could be satisfied completely by small businesses. Therefore, this acquisition was a total small business set-aside. The SBA established a goal within the total small business set-aside in that at least one of the small businesses would be an 8(a) firm.

Lessons Learned, including Limitations and Best Practices / What do you recommend future initiatives do to be successful?

Ensure that proper guidance and training are provided to the field prior to the issuance of task orders to ensure that task orders are issued correctly and in accordance with FAR Part 16.505 Ordering and DFARS 216.505-70, Orders for services under multiple award contracts.

The extensive market research allowed the Government to solicit only to small businesses and ensured competition at the task order level at all locations. The market research also revealed that the acquisition would promote and encourage small businesses to team up and partner with large businesses to create a win-win situation for all parties. This teaming concept was realized as several of the prime CSBS contractors partnered with large businesses to perform work on existing task orders.

What would you change?

Originally IMCOM intended to set-aside funds specifically for the CSBS acquisition; however, due to funding restraints, IMCOM was unable to segregate funds and Ordering Offices were only able to incrementally fund task orders which caused some delays in task order awards.

A better contract arrangement would have been to have the CSBS contract as a five year contract with a five year ordering period instead of a base year with four one year option periods. This arrangement would minimize the administrative burden of exercising options on the master contract each year.

Can it be implemented and corrected?

This is possible for each subsequent competition and is certainly something that should be explored during that time.

If so, what is the timetable? What is the appropriate time to execute the sourcing activity?

The acquisition strategy for the subsequent competition if necessary should be initiated by FY 08.

NAME OF ACQUISITION: Army Contracting Agency, Southern Region (ACASR), Field And Installation Readiness Support Team (FIRST) Indefinite Delivery Indefinite Quantity Enterprise Solution

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome/benefits?

Scope: The Army Contracting Agency, Southern Region (ACA-SR) provides acquisition support to the Army Material Command (AMC), Forces Command (FORSCOM), Installation Management Command (IMCOM), and the U.S. Army Reserve Command (USARC). ACA-SR, through its subordinate element Southern Region Contracting Center-East (SRCC-E) observed recurring logistical support requirements that were satisfied through numerous contracting arrangements and worked with these primary clients to establish an enterprise solution. The scope of the project satisfies logistical support requirements including logistics program management, repair and maintenance support, supply chain management, quality assurance support, logistics training support, and transportation support in both CONUS and OCONUS locations. The enterprise solution was solicited as a multiple award indefinite delivery indefinite quantity (MAIDIQ) arrangement. The duration of the MAIDIQ is five years. The estimated value of the project is $9B. Specific requirements will be identified in separately awarded Task Orders.

Desired outcomes/benefits: The approved acquisition strategy for the FIRST Program included the following objectives:

Provide a means to strategically consider the best methods to satisfy recurring logistics support requirements;
Provide a methodology to promote competition throughout the life of the program;
Leverage the buying power of the clients served to drive down maintenance costs;
Provide a means to implement and enforce common standards for maintenance and support services;
Support the reduction of the logistics footprint;
Support performance-based service acquisition initiatives;
Provide a method of expeditiously satisfying logistical support requirements;
Maintain a qualified and competitive industry base throughout the life of the program;
Create and maintain a process to continuously educate clients and industry on the proper use and benefits of the program;
Support the socio-economic goals of the Army; and,
Enhance customer satisfaction with the end products and services

Who, if anyone, are you working with on driving the initiative?

FIRST is a partnership between the ACA-SR, AMC, FORSCOM, IMCOM and USARC.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole source).

The logistics services market is highly competitive and includes highly capable large and small business firms.

Describe what drives the requirement around this category.

The requirements that will be satisfied under this MAIDIQ include those required to execute the missions of the FIRST partner organizations (and other Army and DoD organizations with similar missions).

How is the sourcing strategy today different from what you have done in the past?

In the past, services were acquired to satisfy immediate requirements of the organization supported. Acquisition strategies were included in Acquisition Plans, but failed to reasonably consider the requirements in more strategic terms and with clear objectives (other than satisfying the immediate need). Metrics were contemplated, but not structured in a manner to reasonably consider whether the objectives of the acquisition (aside from providing a contract arrangement to satisfy requirements) were met.

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?

The MAIDIQ was solicited during the late summer and early fall of 2006. Award of the resultant contracts is anticipated in January 2007.

What is the current status?

Offers have been evaluated, notifications have been made to both successful and unsuccessful offerors, but we have received multiple protests. We are on track to execute contract awards in January 2007. The contracts will be for the period of five years beginning the on award date.

When are your next steps and actions to be completed?

The MAIDIQ will be available for solicitation of Task Orders starting on award date. The FIRST Program includes a Quarterly Program review that will assess the status of the Program in terms of satisfying stated goals and objectives.

What are the proposed dates for the final product (for example a finalized plan and/or contract award date?) See above.

Metrics

If data is not available, please provide an explanation. (Be sure to include a baseline measurement for each metric.)

Total spend covered within initiative ($):

The ceiling for the MAIDIQ is $9B and will be calculated collectively across all contracts and task orders awarded.

Total cost avoidance ($, schedule, resources and/or performance), e.g., reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance.

The following are the metrics that were established at the Program level. As stated, ACA-SR will assess the status of the FIRST Program on a quarterly basis.

Program-level Metrics:

Program-level metrics will be employed to assess the success of the program, and to guide the direction of the program over its 20-year life. The program level metrics include competition, achievement of socio-economic goals, mission capability and client satisfaction with the program.

Competition: FAR 16.505(b) requires fair opportunity be considered for each order exceeding $2,500.

METRIC: Fair opportunity

TARGET/GOAL: 90 percent of task orders are competed—target attainment will be assessed annually.

Data will be collected in the Quarterly Program Report that provides visibility of the usage of FIRST.

Information will also be captured in the Quarterly Program Report to detect trends of consistent utilization of exceptions by any single contracting office or for any contractor.

Periodic review of task order documentation will be conducted to determine the supportability of exceptions to fair opportunity.

Socio-Economic Goals: Data will be collected on a quarterly basis that illustrates (1) whether small business primes are complying with FAR 52.219-14 (Limitation on Subcontracting), and (2) the degree to which small businesses (and subcategories thereunder) are utilized as subcontractors.

METRIC: Limitation on subcontracting

TARGET/GOAL: < 50 percent of the cost of contract performance incurred for personnel is expended for employees of other than the small business prime contractor—target attainment will be assessed annually.

METRIC: Small business subcontracting

TARGET/GOAL: > 10 percent of awarded dollars under the unrestricted suite—assessed annually.

Mission Capable Status: Logistics support is a key contributor to a unit's mission capable status. Data will be collected on a quarterly basis that will provide visibility under each maintenance task order as to the attainment of readiness and reliability standards that will be applied at the individual task order level.

METRIC: Readiness

TARGET/GOAL: The readiness standards set forth in individual task orders are achieved 95 percent of the time.

METRIC: Reliability

TARGET/GOAL: The reliability standards set forth in individual task orders are achieved 95 percent of the time.

Reduce Logistics Footprint: The size or presence of logistics support required to sustain and deploy equipment, vehicles and systems (logistics footprint) has a direct relationship to the cost of maintenance and the mission capability of a unit. Measurable elements include inventory/equipment, personnel, facilities, transportation assets and real estate. A key enabler for reducing the logistics footprint is the reduction in maintenance down time, thereby increasing readiness and reliability. For purposes of this acquisition, the target/goal will focus on reducing the overall effort expended for maintenance for FORSCOM.

METRIC: Reduce maintenance hours

TARGET/GOAL: Reduce the maintenance hours expended (as depicted on the MAC Charts) by 1 percent annually for FORSCOM maintenance task orders. (MAC—Maintenance Allocation Charts)

Client Satisfaction: The success of a program is directly tied to the perceptions of those that use the services of the program. Surveys will be created and administered on an annual basis seeking feedback from ordering offices and requirements organizations that obtain support under the FIRST program.

METRIC: Client satisfaction rating

TARGET/GOAL: 95 percent

Feedback will also be obtained via the ICE survey program, and from the Industry and Customer Councils. The success of any program has a direct reflection on the cost of executing services. Data will be collected on a quarterly basis that will provide visibility under each task order as to the ability to complete the required services within the obligated funding.

METRIC: Cost control

TARGET/GOAL: 99 percent of task orders provide required services within funded/awarded amount

Task Order Level Metrics:

Performance-Based Acquisition methods will be used to the greatest extent possible. These methods are intended to ensure that required performance quality levels are achieved and that total payment is related to the degree that services performed or outcomes achieved meet contract standards. Metrics at the Task order should be presented in terms that are clear and unambiguous, and are linked to incentives and penalties to the greatest extents possible. Metrics should have reasonable measurement periods (i.e., the contractor must be provided sufficient opportunity to come up to speed before the standard is applied).

Metrics should be tailored to the specific outcomes and objectives of the task. The Task ordering Guide will discuss metrics, and will include a repository of sample Performance Work Statements, Performance Requirements Summaries and other documentation that might be deemed useful. Typical metrics that may be seen at the Task order include, but are not limited to:

- Cost control
- Readiness
- Reliability
- Mean Time Between Failure (MTBF)
- Mean time Between Critical Failure
- Operational Availability
- Schedule

Small business spend before and after initiative (% change and direction)

What were the Small Business Administration goals?

Market research indicated that some, but not all, of the requirements included in the FIRST Scope of Work could be satisfied by Small Businesses. The requirements for FIRST were solicited through two separate Request for Proposals; one as a 100% set aside for small business, the other as a full and open competition. It is estimated that approximately 33% of the requirements will be satisfied by small business prime contractors. Subcontracting opportunities are present and should represent approximately 25% of the requirements satisfied by large business prime contractors.

Lessons Learned, including Limitations and Best Practices / Success Stories

What do you recommend future initiatives do to be successful?

Industry Council: One of the keys to the success of FIRST, to date, is the exchange of information between the acquisition organization, the requiring organizations and industry. To facilitate and structure the exchange, an Industry Council was established. This Council will remain active throughout the life of the FIRST Program. The primary objective of the Council was to create a forum to discuss major issues that impact the Government and Industry at large and to improve the value of the FIRST IDIQ to potential users. The Council represents the participants in the FIRST acquisition and consists of representatives from all industry segments; e.g., large business, small business, small disadvantaged business, etc. Business rules have been established to ensure fair representation, rules for participation and periodic rotation of Council membership. The Council also includes representatives from the local Small Business Administration office, as well as members of the ACA-SR and SRCC-E contracting and legal staffs. Participation has been limited to those individuals who bring knowledge and expertise that will benefit the program and are committed to resolving issues, improving processes and promoting best practices. Pre-award initiatives for the Industry Council included the identification of best practices, metrics and examples of performance-based task orders that were reviewed and included in the Task Order Guide and FIRST RFPs. Post award initiatives will include consideration of methods to promote education on proper use of the IDIQ, streamlining the task order process and exploring methods to improve communications.

Market Research: The focus of FIRST was as a Program, vice individual requirement. In-depth market research allowed the Government to present its requirements in an effective manner that permitted participation by both large and small business prime contracts. The structure of the acquisition was

designed to promote competition throughout the life of the Program and to consider changes in requirements, client organizations, market trends and industry as subsequent competitions (four contemplated over the life of the FIRST program – each updating the acquisition strategy approved for the initial competition). The acquisition was designed to promote participation by small business, both as prime and subcontractors, thereby ensuring a competitive small business industry base throughout the life of the Program.

What would you change?

A more effective solution would have been the establishment of a 20-year acquisition. The initial strategy contemplated an arrangement whereby industry was incentivized to meet Program objectives and entrance/exit criteria was employed to refresh the competitive industry base. Due to statutory limitations, this arrangement was not possible and an incremental approach (5 year contracts) was pursued.

Can it be implemented and corrected? Although the strategy could not be implemented for the initial competition, it should be re-explored with each subsequent competition. The primary benefit of such an arrangement is to reasonably leverage the industry base to meet program objectives.

If so, what is the timetable? The acquisition strategy for the subsequent competition should be initiated in the FY 2009 timeframe.

What is the appropriate time to execute the sourcing activity? N/A

NAME OF ACQUISITION: Army Material Command (AMC), Field and Sustainment Maintenance Commodity Council (FSMCC)

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome/benefits?

Scope: The FSMCC was established to plan and implement an Army-wide strategic sourcing program for contracts supporting sustainment and field maintenance. This includes support for activities which have recently come under AMC's management: Field Level Repair Centers, TRADOC's training fleet and Directorates of Logistics. The initial scope and spend areas to be addressed are CONUS-based, non-aviation sustainment and field maintenance requirements for AMC, FORSCOM, IMCOM and TRADOC.

Desired outcomes/benefits: The desired outcomes of the FSMCC

- Leverage Army dollars spent on contract maintenance and consolidate the maintenance contracting vehicles
- Standardize maintenance statement of work requirements and establish standard quality assurance and performance metrics for contractors.
- Reduce acquisition processing times
- Create and maintain strategic relationships with suppliers
- Address socio-economic goals

Who, if anyone, are you working with on driving the initiative?

The HQ AMC Office of Command Contracting is leading the initiative and has formed a Strategic Sourcing Director's Board consisting of contracting and logistics executives from AMC Life Cycle Management Command and the Army Sustainment Command, Forces Command (FORSCOM), Training and Doctrine Command (TRADOC) and the Army Contracting Agency – Northern and Southern Regions.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole source).

Market is diverse and competitive.

Describe what drives the requirement around this category.

The May 2006 change 4 to the Army Campaign Plan, Draft ARFORGEN Implementation Plan, designates AMC as the lead to manage all contracts for field and sustainment maintenance. The Army currently is spending billions of dollars on maintenance with multiple organizations providing contracting support. AMC's Deputy Commanding General has directed that AMC move towards centralizing requirements and contracts for maintenance. The FSMCC is the forum to accomplish that.

How is the sourcing strategy today different from what you have done in the past?

Prior to this no planning effort existed for strategic sourcing of maintenance.

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?

- AMC conducted a rudimentary spend analysis in the Summer 2006 and has selected a program (SINCGARS radio) as a pathfinder to test the strategic sourcing process in maintenance. Completion of the pilot will be accomplished when the Strategic Sourcing Directors Board meets and approves the strategy for sourcing maintenance for SINCGARS radios. ECD for completion of pilot: February 2007

- Since AMC has recently acquired new maintenance responsibilities, AMC is currently using the FSMCC to flow chart the contracting process as it supports field and sustainment maintenance. ECD for completion: January 2007

- In order to achieve the desired outcomes of the FSMCC stated in II.a.i, AMC will conduct a series of pilots to review maintenance contracts for different sectors of maintenance, e.g., field maintenance done by the Directorates of Logistics and Maintenance to support TRADOC Schools. FSMCC efforts to accomplish this will continue for at least one year.

Metrics

If data is not available, please provide an explanation. (Be sure to include a baseline measurement for each metric.)

Total spend covered within initiative ($):

Contracts for maintenance are not separately tracked in any Army data base, therefore, in March 2006, AMC requested 2005 information on maintenance contracts from all AMC and Army Contracting Office contracting offices. Since much of the information gathered relied on several FSC codes and/or was pulled manually, it is rudimentary. Results of this survey on Army maintenance contracting showed approximately 26 contracting offices awarded 145 contracts to 94 vendors for $2.2B (less aviation). The following charts provide additional approximate baseline information for the FSMCC.

Total cost avoidance ($, schedule, resources and/or performance), e.g., reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance.

The Strategic Sourcing Process is still in its first steps and therefore no metrics in this area have yet been developed.

Small business spend before and after initiative (% change and direction)

What were the SBA goals?

We are still in the process of conducting market research in this area to determine whether or not this category of business is able to be fulfilled by small business. Currently a very small percentage of the total work is being performed by small businesses.

Lessons Learned, including Limitations and Best Practices/Success Stories

What do you recommend future initiatives do to be successful? None at this time.

What would you change? N/A

What is the appropriate time to execute the sourcing activity?

The Commodity Council must first complete it study and make its recommendations to the Commanding General, Army Material Command.

NAME OF ACQUISITION: Installation Management Command (IMCOM), Automated Data Processing Equipment (ADPE)

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome/benefits?

Scope: The scope of the ADPE commodity includes desktop/laptop, Thin Client, and Peripheral equipment.

Desktop/Laptop – The desktop/laptop demand is driven by IMCOM and installation requirements for personal computing power for its employees. Currently, desktop/laptop purchases are made through the Army Small Computer Buy program and the Consolidated Buy program. However, participation in the current program is low, impacting overall Army savings.

Thin Client – Based on an Army mandate, all users will transition from Desktops to Thin Client terminals by the year 2011. Currently, the Army does not have an enterprise-wide acquisition strategy for purchasing Thin Client equipment.

Peripherals – The Army currently does not have an enterprise-wide policy, process or acquisition strategy for purchasing Computer Peripherals. Many are purchased from local stores and/or using a government credit card.

Based on the Strategic Sourcing process and extensive analysis, the team developed three specific recommendations for generating IMCOM savings on purchases of ADPE. These include:

- Improve overall Consolidated Buy participation through an improvement in the CB program and processes – the recommendation focuses on generating savings through improvements to the structure of the current Consolidated Buy program and increasing participation from members

- Develop a Thin Client acquisition strategy for the Army – the recommendation focuses on developing an enterprise-wide acquisition strategy for purchases of Thin Client equipment

- Develop a Components, Peripherals, and Accessories acquisition strategy for the Army – the recommendation focuses on developing an enterprise-wide acquisition strategy for Peripherals

Each of the three recommendations includes specific steps and a detailed business plan for implementation.

Desired outcomes/benefits*:* Develop an installation-wide cross

functional acquisition strategy for ADPE in order to lower the Total Cost of Ownership for acquired goods while serving the needs of customers/stakeholders; leverage commercial best practices in order to streamline and standardize acquisition business processes; and address improvements in meeting socio-economic goals through the use of strategic sourcing, as applicable

Who, if anyone, are you working with on driving the initiative?

The ADPE team was launched in May of 2006. The team was led by IMCOM East, Northeast Office (formerly IMA Northeast Region). The team consisted of representatives from the Regional CIO office, PEO EIS, Army Contracting Agency, IMCOM Plans, Regional DOIMs, and Army Small Business.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole source).

The ADPE market place is highly competitive.

Describe what drives the requirement around this category.

A combination of incremental funding issues and concerns dictating when ADPE purchases are made Army-wide, as well as the current Army ADPE Hardware "refresh schedule" of every 3 to 5 years.

How is the sourcing strategy today different from what you have done in the past?

In the past, ADPE requirements were not aggregated at a level higher than the installation, and often one or two levels below that.

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?

What is the current status?

On November 14, 2006, the commodity strategy was presented to BG MacDonald and the IMCOM Regional Directors (RDs) for approval. Based on the recommendations, BG MacDonald gave his approval for the three strategy recommendations. The team is currently developing detailed steps and a timeline for implementation.

When are your next steps and actions to be completed?

Next steps for the ADPE initiative are to finalize implementation steps/timeline, communicate findings and secure buy-in from appropriate Army IT stakeholder communities, and finalize roles and responsibilities. In addition, a communications plan is being developed and implemented within IMCOM to raise awareness on the Consolidated Buy program for desktop/laptop purchases.

What are the proposed dates for the final product (for example, a finalized plan and/or contract award date?)

Implementation of the recommended improvements to the Consolidated Buy program and an acquisition strategy for Peripherals is slated to be finished by the end of FY07. Development of a Thin Client acquisition strategy will be based on the Army's migration strategy and is currently being slated to be completed beyond FY07.

Metrics

If data is not available, please provide an explanation. (Be sure to include a baseline measurement for each metric.)

Total spend covered within initiative ($):

Initiative	Total Spend (FY07-FY11)
ADPE	$703 - $885 M [(1)]

Based on IMCOM and installation tenant spend in CONUS and AK/HI.

Total cost avoidance ($, schedule, resources and/or performance), e.g., reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance:

Initiative	Total Cost Avoidance (FY07-FY11)
ADPE	$67 - $167 M [(1)]

Based on IMCOM and installation tenant spend in CONUS and AK/HI.

Small business spend before and after initiative (% change and direction)

Initiative	Small Business Spend Pre-Initiative	Small Business Spend Post-Initiative	% Change
ADPE	TBD	TBD	TBD

What were the SBA goals?

No specific SBA goals have been established for ADPE; however, they will be addressed as part of implementation

Lessons Learned, including Limitations and Best Practices / Success Stories

What do you recommend future initiatives do to be successful?

We recommend that all future strategic sourcing initiatives:

- Involve key stakeholders early on in the strategic sourcing process. For commodities such as ADP Equipment within the Army, enterprise programs/contracts are in place for purchasing. It is important to get buy-in from stakeholders from the organizations managing these programs/contracts upfront and throughout the process. This includes communication with these organizations prior to kickoff and also includes regular team participation by stakeholders from these organizations. Communication and buy-in upfront can lead to an easier transition to implementation and alleviate ownership issues.

- Understand that data limitations and gaps exist. Although gaps existed in identifying total IT expenditures across IMCOM and the Army, the ADPE strategic sourcing team primarily gathered contracting data available from the ACA Business Intelligence System (BIS) to best estimate spend and cost avoidance figures for ADPE spend by IMCOM and installation tenants.

- Define and lock down the scope of the team early in the process. Although there was interest in analyzing and sourcing ADP software and services, the team kept its focus on ADPE because of the unique supply market for IT hardware. ADP software and services can be addressed by future commodity teams.

- Look at the supply market from the market's perspective and learn to see the market as it sees itself.

What would you change*?*

While we continue to capture and implement lessons learned, we would make no significant changes at this time.

Can it be implemented and corrected? ***If so, what is the timetable? What is the appropriate time to execute the sourcing activity?*** N/A

NAME OF ACQUISITION: Installation Management Command (IMCOM), Food Services

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome/benefits?

Scope: The scope of Food Services includes the total requirements necessary to provide Subsistence, Full Food Services, KP duty and overhead associated with running a Dining Facility

Desired outcomes/benefits

- Identify potential opportunities for strategically sourcing Food Services and to lower Total Cost of Ownership (TCO)
- Identify opportunities to leverage existing programs/initiatives and contracts for Management and Advisory Services

Who, if anyone, are you working with on driving the initiative?

The team is led by IMCOM West, Southwest Office (formerly IMA Southwest Region). The team consists of representatives from IMCOM Headquarters, IMCOM Region Plans, IMCOM Region Logistics, Army Contracting Agency, Army Small Business, and local Dining Facilities at the garrison and installation level across the Army.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole source).

The team is in the process of developing an understanding of the market associated with Food Services.

Describe what drives the requirement around this category.

The team is in the process of developing an understanding of the requirements associated with Food Services.

How is the sourcing strategy today different from what you have done in the past?

The team is in the process of developing the sourcing strategy for Food Services.

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?

What is the current status?

The FS team is in the process of developing the Commodity Profile and Market Analysis for Food Services.

When are your next steps and actions to be completed?

The final Commodity Strategy will be complete by the end of February 2007. The Commodity Strategy will then be briefed to BG MacDonald and the IMCOM Regional Directors for approval. If approved, the Commodity strategy will move into implementation phase.

What are the proposed dates for the final product (for example, a finalized plan and/or contract award date?)

These dates are still pending. They depend on the approval Commodity Strategy and the implementation phase.

Metrics

If data is not available, please provide an explanation. (Be sure to include a baseline measurement for each metric.)

The team is in the process of developing an understanding of the metrics associated with Food Services.

Total spend covered within initiative ($):

Initiative	Total Spend
Food Services	TBD

Total cost avoidance ($, schedule, resources and/or performance), e.g., reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance.

Initiative	Total Cost Avoidance (Projected)
Food Services	TBD

Small business spend before and after initiative (% change and direction)

Initiative	Small Business Spend Pre-Initiative	Small Business Spend Post-Initiative	% Change
Food Services	TBD	TBD	TBD

What were the SBA goals?

Lessons Learned, including Limitations and Best Practices / Success Stories

The team is capturing lessons learned as the project progresses.

What do you recommend future initiatives do to be successful? N/A

What would you change? N/A

Can it be implemented and corrected? If so, what is the timetable? What is the appropriate time to execute the sourcing activity?

NAME OF ACQUISITION: Installation Management Command (IMCOM), Management and Professional Services (MPS)

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome/benefits?

Scope: Based on initial analysis, the team has identified Environmental Services as the initial target opportunity within Management and Professional Services. The team will continue to analyze this opportunity and develop a specific Strategic Sourcing strategy.

Desired outcomes/benefits*:* Desired outcomes include:

- Identify potential opportunities for strategically sourcing Management and Advisory Services and to lower Total Cost of Ownership (TCO)
- Identify opportunities to leverage existing programs/initiatives and contracts for Management and Advisory Services

Who, if anyone, are you working with on driving the initiative?

The MPS team was launched in October of 2006. The team is led by IMCOM West, Pacific Region Office (formerly IMA Pacific Region). The team consists of representatives from IMCOM HQ, IMCOM Region Plans, IMCOM Region Public Works, IMCOM Region Logistics, IMCOM HQ Environmental, Army Contracting Agency, Army Small Business and garrison and installation representatives from across the Army.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole source).

The team is in the process of developing an understanding of the Environmental Services market.

Describe what drives the requirement around this category.

Requirements in this category are driven by pollution prevention, conservation and compliance standards.

Pollution prevention requirements are based upon:

- Clean Air Act Amendments of 1990
- Emergency Planning & Right to Know
- Executive Orders 13148 and 13101
- Other local, state and federal pollution prevention requirements

Conservation requirements are based upon:

- National Historic Preservation Act
- Archeological Resources Protection Act
- Native American Graves Protection & Repatriation Act
- Sikes Act

- Endangered Species Act
- Clean Water Act
- Federal Insectide, Fungicide, Rodenticide Act
- AR 200-3 and AR 2004-4
- Other applicable Executive Orders, local, state and federal governing standards

Compliance requirements are based upon:

Applicable new local, state and federal governing standards for environmental quality and management

How is the sourcing strategy today different from what you have done in the past?

The project is still in the early stages of research.

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?

What is the current status?

The MPS team is in the process of developing the Commodity Profile and Market Analysis for Environmental Services.

When are your next steps and actions to be completed?

The final Commodity Strategy will be complete by the end February 2007. The Commodity Strategy will then be briefed to BG MacDonald and the IMCOM Regional Directors for approval. If approved, the Commodity strategy will move into implementation phase.

What are the proposed dates for the final product (for example, a finalized plan and/or contract award date?)

Proposed dates are as follows:	
Commodity Profile:	January 2007
Supply Market Analysis:	January 2007
Acquisition Strategy/Business Case:	February 2007

Metrics

If data is not available, please provide an explanation. (Be sure to include a baseline measurement for each metric.)

The project is in the early stages of research and has not developed performance benchmarks at this point.

Total spend covered within initiative ($):

Initiative	Total Spend (Annual)
Management and Professional Services (MPS)	Approx. $124 MM[1]

(1) Subject to review of additional data

Total cost avoidance ($, schedule, resources and/or performance), e.g., reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance.

Initiative	Total Cost Avoidance (Projected)
MPS	TBD

Small business spend before and after initiative (% change and direction)

Initiative	Small Business Spend Pre-Initiative	Small Business Spend Post-Initiative	% Change
MPS	TBD	TBD	TBD

What were the SBA goals?

The project is in the early stages of research and has not developed SBA performance benchmarks at this point.

Lessons Learned, including Limitations and Best Practices / Success Stories

The team built a cross-walk between IMA Online data which has spend data (obligations) detailed to the AMS8 code level and the ACA/BIS system which has contract and supplier identification data.

What do you recommend future initiatives do to be successful?

The team is capturing lessons learned as the project progress.

What would you change? TBD

Can it be implemented and corrected? TBD

If so, what is the timetable? What is the appropriate time to execute the sourcing activity? TBD

NAME OF ACQUISITION: Installation Management Command (IMCOM), Municipal Services (MS)

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome/benefits?

Scope: The team has identified two primary areas of opportunities for Strategic Sourcing within the Municipal Services commodity. They include: Custodial and Refuse/Recycle services.

Desired outcomes/benefits: Desired outcomes include:

- IMCOM-wide standards for recommended service output levels for selected Municipal Services
- Developing IMCOM-wide cross-functional acquisition strategy for Municipal Services in order to reduce total cost of ownership for acquired services while serving the needs of IMCOM customers/stakeholders
- Leveraging commercial best practices in order to streamline and standardize acquisition business processes;
- Addressing improvements in meeting socio-economic goals through the use of strategic sourcing, as applicable
- Acquiring enhanced skills in sourcing strategically through the utilization of commercial practices and processes

Who, if anyone, are you working with on driving the initiative?

The team is led by IMCOM West, Northwest Office (formerly IMA Northwest Region). The team consists of representatives from IMCOM HQ, IMCOM Region Plans, IMCOM Region Public Works, Army Contracting Agency, Army Small Business, and other Regions and Garrisons.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole source).

The market is highly fragmented for both custodial services and refuse/recycle services. Both markets utilize a large amount of unskilled labor, which is the primary cost driver for both markets.

Describe what drives the requirement around this category.

Requirements for custodial services (i.e. cleaning frequencies and tasks) are driven by a combination of health policies for Child Development Centers, guidelines from Building Owners and Managers Association (BOMA) standards and Common Levels of Support (CLS), customer experience/requests, and budgetary constraints.

Requirements for refuse/recycle services (i.e. pickup frequencies and disposal costs) are driven by troop mobilizations/installation population, recycling targets, overall trash volume, and past experience of the contracting offices.

How is the sourcing strategy today different from what you have done in the past?

The sourcing strategy for custodial services is to implement a common, acceptable standard for cleaning frequencies across IMCOM. Currently there are wide disparities in levels of service and costs per square foot among installations.

The sourcing strategy for refuse/recycle services is to implement a common, performance based collection program based on better container management and reduced collection frequencies. Currently there are no standards for container sizes and there are few performance based contracts.

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?

The schedule for implementation is currently in development. It will be included in the Commodity Strategy scheduled to be completed by December 21, 2006.

What is the current status?

The MS team has recently finalized the Commodity Profile and Market Analysis for both opportunities. The MS team is currently working on the Commodity Strategy.

When are your next steps and actions to be completed?

The final Commodity Strategy will be complete by December 21, 2006. The Commodity Strategy will then be briefed to BG MacDonald and the IMCOM Regional Directors for approval. If approved, the Commodity strategy will move into implementation phase.

What are the proposed dates for the final product (for example a finalized plan and/or contract award date?)

The Commodity Strategy will be complete by December 21, 2006. The implementation of the Commodity Strategy is dependent upon its approval.

Metrics

If data is not available, please provide an explanation. (Be sure to include a baseline measurement for each metric.)

Total spend covered within initiative ($):

Initiative	Total Spend
Custodial Services	$69.7 M
Trash/Recycle Services	$63.0 M

Total cost avoidance ($, schedule, resources and/or performance), e.g., reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance.

The total cost avoidance estimate is currently in process and will be included in the Commodity Strategy reference above.

Initiative	Total Cost Avoidance (Projected)
Custodial Services	TBD
Trash/Recycle Services	TBD

Small business spend before and after initiative (% change and direction)

Initiative	Small Business Spend Pre-Initiative	Small Business Spend Post-Initiative	% Change
Custodial Services	TBD	TBD	TBD
Trash/Recycle Services	TBD	TBD	TBD

Small business and NISH spend is estimated to be over half of the overall spend for both custodial and refuse/recycle services. It was not possible to calculate an accurate percentage of small business spend overall.

What were the SBA goals?

The southern regions have had a target of 48% for small business.

Custodial services currently has a large number of NISH and small business contractors. 19 of the top 20 contractors are either NISH or small business contractors. There is expected to be little, if any, negative impact on NISH or small business for custodial services from this initiative.

Refuse/Recycle services currently has a large number of small business contractors. There is expected to be a marginal impact on small business, the estimated amount of impact will be determined upon the completion of the Commodity Strategy document.

Lessons Learned, including Limitations and Best Practices / Success Stories

What do you recommend future initiatives do to be successful?

The team is capturing lessons learned as the project progress. Achieving buy-in from the regional leads and naming points of contact early in the program is critical to the program's success.

What would you change?

As stated in section above, the sourcing strategy for custodial services is to implement a common, acceptable standard for cleaning frequencies across IMCOM. Currently there are wide disparities in levels of service and costs per square foot among installations.

The sourcing strategy for refuse/recycle services is to implement a common, performance based collection program based on better container management and reduced collection frequencies. Currently there are no standards for container sizes and there are few performance based contracts.

Can it be implemented and corrected?

Assuming the approval of the commodity strategy and support from both the installations and the regions, the team believes that the stated strategy can be implemented.

If so, what is the timetable? What is the appropriate time to execute the sourcing activity?

The timeline is currently in development. The timeline will be included in the Commodity Strategy document referenced previously.

NAME OF ACQUISITION: Installation Management Command (IMCOM), Maintenance and Repair of Buildings (M&R)

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome/benefits?

Scope: Based on the Strategic Sourcing process and extensive analysis, the team identified two specific spend areas within Maintenance and Repair of Buildings for further analysis: HVAC and Roofing.

***Desired outcomes/benefits*:** Develop an IMA-wide cross-functional commodity strategy for key M&R areas to lower Total Cost of Ownership (TCO) while serving the needs of customers/stakeholders; and leverage both commercial and internal best practices in the acquisition and management of key building maintenance areas.

Who, if anyone, are you working with on driving the initiative?

The team was led by IMCOM East, Southeast Office (formerly IMA Southeast Region). The team consisted of representatives from IMCOM Headquarters, IMCOM Regional Public Works, IMCOM Regional Plans Division, Army Contracting Agency, and Army Small Business.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole source).

The market is highly competitive.

Describe what drives the requirement around this category.

The requirement is primarily driven by incremental funding issues and the cyclical nature of the required services. Additional drivers include:

- **HVAC** – Demand for HVAC equipment and services is driven by the needs of the individual installations. HVAC services are required to install, maintain and service new and existing HVAC equipment. Currently, installations vary in terms of the amount of preventive maintenance conducted based on budget and priorities. For HVAC equipment, new purchases are driven by failure of old equipment, major building renovations, and new construction (purchase of equipment for most new construction is outside of the project scope, but maintenance of the resulting equipment is in scope). Currently, the Army does not have an enterprise-wide agreement for purchasing new HVAC equipment. Because HVAC equipment purchases are project-driven and often awarded to different contractors over time, there is a diverse mix of provider equipment throughout the Army as well as within individual installations.

- **Roofing** – Demand for roofing services is driven by the need to repair and/or replace existing roofing on buildings on Army installations. Currently, installations vary in terms of the amount of resources they are able to dedicate to roofing issues based on budget and priorities. However, it is clear that using cheaper materials and/or cheaper (less skilled) labor as a means to save money in the short-term (common practice in today's funding constrained environment), quite often leads to premature roof failures and a host of related problems that end up costing the government significantly more over the long-term.

How is the sourcing strategy today different from what you have done in the past?

- **HVAC** – For HVAC there are two strategies: (1) institute consistent preventive maintenance programs and (2) pursue equipment standardization through enterprise agreements. For HVAC preventive maintenance, installations historically have varied in terms of the amount of preventive maintenance conducted based on budget and other priorities. The goal of the pilot test of a standardized preventive maintenance program is to demonstrate the long-term financial value of pursuing a consistent, standardized program of preventive maintenance. For HVAC equipment purchases, historically each installation has generally installed a wide range of HVAC equipment brands over time. The HVAC system installed has typically been driven by the supplier chosen to do a particular repair, renovation, or construction project. This leads to a proliferation of equipment brands and types which drives up costs of training and spare parts and also negates any volume leveraging since equipment is purchased in one-off buys by project and by installation. The new strategy will seek to both standardize supply options on a discreet number of preferred providers and also establish volume-based pricing that better leverages IMCOM's spend on HVAC equipment.

- **Roofing –** Historically, there has not been a standardized process for repairing and replacing roofs in terms of roofing specifications, no standardized requirements for contractor qualifications, no standardized quality assurance (QA) process and no standardized warranty. As a result average roof lives across the Army can vary widely based largely on how well the roof was initially constructed. Under the proposed new roofing strategy, guide specifications will be established, contractor qualifications will be documented to ensure supplier quality, standardized QA oversight procedures will be implemented and new roofs will be purchased with a standard 20-year no-dollar limit (NDL) warranty. These steps will help ensure improved initial roof quality and warranty coverage. Because poor initial roof quality has been shown to be the leading cause of premature roof failures, improving these aspects of roofing is expected to greatly extend roof longevity, decreasing total cost of ownership.

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?

What is the current status?

On November 14, 2006, the commodity strategy was presented to BG MacDonald and the IMCOM Regional Directors (RDs) for approval. Based on the recommendations, BG MacDonald gave his approval for the strategy recommendations presented in each of the two areas. The team is currently developing detailed steps and a timeline for implementation.

When are your next steps and actions to be completed?

The team has begun implementation planning and will be meeting again the week of December 4th to further develop implementation next steps, to include planning for pilot testing of the HVAC preventive maintenance initiative and the standardized roofing initiative. Next steps and project plans will be completed and briefed to BG MacDonald in January 2007 and pending approval, implementation will proceed based on the approved plans.

What are the proposed dates for the final product (for example, a finalized plan and/or contract award date?)

As noted above, planning is in process and the draft plan is expected to be briefed to IMCOM leadership for approval in January 2007.

Metrics

If data is not available, please provide an explanation. (Be sure to include a baseline measurement for each metric.)

Total spend covered within initiative ($):

Spend Area	Total Spend
HVAC PM	NA[1]
HVAC Equipment	$275 M[2]
Roofing	$93 M[3]

[1] Spend is not readily available at this level of detail in any centralized location. Spend in DD-350 is tracked by type of building not by type of work performed (e.g., "Maintenance and Repair of Office Buildings" rather than "HVAC preventive maintenance"). In a survey conducted at 15 sample installations, little to no money was being spent on HVAC PM currently. A pilot test is recommended using a sampling of installations to gauge the overall cost of implementing a consistent PM program as well as to validate the financial benefits resulting from the program.

[2] Represents the estimated 5-year total spend on HVAC equipment and replacement parts.

[3] Estimated FY05 roofing spend based on a sampling of 15 IMCOM installations extrapolated to the full IMCOM population.

Total cost avoidance ($, schedule, resources and/or performance), e.g., reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance.

Spend Area	Total Cost Avoidance (Projected)
HVAC PM	$292M - $364M[1]
HVAC Equipment	$13M - 40M[2]
Roofing	TBD[3]

[1] (30-Year Savings; Low end assumes pursuit of two highest priority equipment categories, high-end assumes pursuit of two high priority and two medium priority equipment categories. Actual cost avoidance will vary based on the extent of the PM program and the consistency with which it is applied.

[2]Cumulative 5-year savings net of investment and including a 6-month savings ramp-up period in year 1 (Range assumes 5-15% savings)

[3]The team is recommending a pilot test be conducted as a proof of concept and as a means to gather additional data to be used in quantifying the benefits of the proposed roofing program.

Small business spend before and after initiative (% change and direction)

Spend Area	Small Business Spend Pre-Initiative	Small Business Spend Post-Initiative	% Change
HVAC PM	TBD	TBD	TBD

HVAC Equipment	TBD	TBD	TBD
Roofing	TBD	TBD	TBD

What were the SBA goals?

As noted earlier, the contracting database captures data by type of building not by type of work performed (e.g., "Maintenance and Repair of Office Buildings" rather than "HVAC preventive maintenance"). Because of this limitation, current small business usage at this level of detail (e.g., roofing, HVAC PM, etc.) is not readily available. Therefore it is not clear exactly what the current small business usage is in each of these areas, and IMCOM currently does not set small business goals at this low level of spend detail.

The team is working closely with members of ACA and the Small Business Office on the implementation plans and the two proposed pilot tests (roofing and HVAC PM) and will work to establish reasonable small business objectives for each initiative.

Lessons Learned, including Limitations and Best Practices / Success Stories

What do you recommend future initiatives do to be successful?

Lessons learned from the M&R strategic sourcing team include:

- **Data Collection** – The data required to conduct a thorough spend analysis is not always readily available at the required level of detail in a centralized source. In the case of M&R services, the team found that commonly used data sources such as FPDS/DD-350 did not contain sufficient detail to conduct a proper spend analysis. The spend classification system in these databases captures spend by the type of building for which the work was performed (e.g., M&R of office buildings, M&R of troop housing, etc.) rather than by the type of work performed (e.g., roofing, HVAC, painting, etc.). The team determined that developing a data call to be sent to a sampling of garrison Department of Public Works (DPW) offices would be the most effective means of gathering the spend detail required. By gathering the data in this way, the team was able to not only isolate the type of spend (e.g., roofing, HVAC, etc.) but often other important details such as repair vs. replacement vs. preventive maintenance and other important information regarding items such as contracting methods, base-level acquisition strategies and small business usage.

- **Technical Expertise** – Many of the recommendations from the M&R team relate more to demand management and internal practices than drastically different acquisition strategies. Partnering with DPW engineering stakeholders with the required technical expertise in areas such as roofing, HVAC, etc was critical to identifying improvement opportunities beyond simple price competition tactics.

- **Leverage Internal Best Practices** – In the case of roofing, working closely with other organizations outside of IMCOM but still within the Army such as the Corps of Engineers Research Lab (CERL) and the Army Reserve identified a number of best practices that could be leveraged on the active duty side for IMCOM installations.

- **Ensure Cross Functional Participation** – Ensuring participation upfront from all key stakeholder groups including IMCOM DPW, IMCOM Plans, installation-level engineering representatives, ACA, and small business was integral to developing the recommended improvement opportunities.

What would you change?

At this point we are still examining lessons learned.

Can it be implemented and corrected? N

If so, what is the timetable? What is the appropriate time to execute the sourcing activity? N/A

NAME OF ACQUISITION: U.S. Army Medical Research Acquisition Activity (USAMRAA), Laboratory Supplies and Equipment

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome/benefits?

Scope and Desired outcomes/benefits:

Initially (FY '07) the scope of this project will be limited to USAMRAA's parent command and primary customer USAMRMC. Assuming the substantial cost savings and operating efficiencies that we anticipate are achieved; we will expand the scope of this initiative as follows:

- FY '07 6 laboratories owned and operated by USAMRMC
- FY '08 Add 14 USAMRMC supported lab
- FY '09 Add 5 labs operated by NIBC agencies and assess the potential for expanding these strategic sourcing contracts Army/DOD-wide.

Who, if anyone, are you working with on driving the initiative?

We have held initial discussions with the Censeo Consulting Group with respect to start-up assistance. The success of this strategic sourcing initiative is in large part dependent on the cooperation and support received from our parent command and primary customer USAMRMC. Although initial discussions have not been held, based on past experience with other cost saving initiatives we anticipate strong Command support.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole source).

The market for medical research laboratory *supplies* is highly competitive and comprised of both large national and small regional suppliers. By way of contrast, the market for medical research *equipment* is significantly more specialized with upwards of 25 % of these contracts being sole sourced. The actual percentages of sole sourced contracts for medical research equipment will be determined as part of our detailed spend analysis.

Describe what drives the requirement around this category.

USAMRAA's initiative to strategically source its acquisition of medical research related supplies, equipment and services is driven by the opportunity to significantly reduce our costs in these areas based both on current expenditures ($1.9B) and projected, increased demand for these commodities in the future. When other agency (DOD, DHS, DAHS and USDA) expenditures for these commodities are included, we expect the total value of these strategically sourced commodities to increase to at least $2 or 3 billion.

How is the sourcing strategy today different from what you have done in the past?

Our Sourcing Strategy is in the process of being determined.

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?

USAMRAA is in the initial phase of developing its state sourcing plan. To date we have; compiled a preliminary spend analysis targeted three commodities that are potentially "high payoff" candidates for strategic sourcing; held preliminary discussions with Censeo Consulting Group for the purpose of exploring the feasibility determining the scope and estimating the costs of acquiring their services to jump start this process.

What is the current status?

Following is our current "working schedule" for implementing USAMRAA laboratory supplies and equipment strategic sourcing initiative. This schedule is subject to revision by the Strategic Council once it meets in December.

• Identify Agency Strategic Sourcing POC	
• Subject Matter Expert	01 DEC 06
• Finalize Strategic Sourcing Council Membership	01 DEC 06
• Hold Initial Meeting	01 JAN 07
• Develop Communication Strategy	01 DEC 06
• Initial Staff Communication	10 DEC 06
• Develop Training Strategy	20 DEC 06
• Conduct Detailed Spend Analysis	30 DEC 06
• Develop Strategic Sourcing Governance Charter	30 JAN 07
• Establish Strategic Sourcing Goals and Objectives	30 JAN 07
• Establish Agency-wide Performance Measures and Reporting Requirements	28 FEB 06
• Collect Required Metrics Data	0n-going

When are your next steps and actions to be completed?

See above number 1. Responsibility for the above tasks will be assigned as follows: Task #1 and 2 – USAMRAA's CAO/PARC; Tasks #6, 7 and 8 – Individual Strategic Sourcing Council Members as assigned by the CAO; and Tasks #3, 4 and 5 Business Support and Business Oversight Branch staff.

What are the proposed dates for the final product (for example, a finalized plan and/or contract award date?) Unknown at this time.

Metrics

If data is not available, please provide an explanation. (Be sure to include a baseline measurement for each metric.)

Total spend covered within initiative ($):

Preliminary spend analysis data indicates that USAMRAA's total FY06 spend for its three target strategic sourcing commodities was $1.9B. A detailed spend analysis of FY06 contracts awarded for laboratory supplies and equipment is scheduled for completion by 30 DEC 06.

Total cost avoidance ($, schedule, resources and/or performance), e.g., reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance.

Information on total cost avoidance data including reductions in the prices of goods and services, reductions in the cost of doing business, and reductions attributable to operating efficiencies is not available. USAMRAA's target goal for cost saving from this initiative is 15 percent.

Small business spend before and after initiative (% change and direction)

What were the SBA goals?

Market research has not yet been conducted to determine applicability. However, currently approximately 48% of the total spend in this category is in the small business category.

Lessons Learned, including Limitations and Best Practices/ Success Stories

No specific strategic sourcing successes at this time. However, the six ID/IQ contracts that USAMRAA has established with TMA as well as the no-cost contract that we are currently negotiating with National Industries for the Blind for a Fort Detrick Garrison JWOD Storefront are strong indicators of USAMRAA's, USAMRMC's and the Garrison's commitment to similar cost saving initiatives.

NAME OF ACQUISITION: Army-led DoD Wireless Handheld Communications Services Commodity Council

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome/benefits?

Scope: The scope of this project is commercial wireless voice and data capabilities and related equipment, data analysis, and support services. The objective of this agreement is to provide wireless handheld devices, services (both voice and data), and related accessories for Government agencies while achieving the best enterprise terms, conditions and pricing. In addition, the Government seeks to streamline invoicing, billing, payment, ordering, and delivery processes, and standardize reporting and analytical methods for audit and asset management. It is expected that the Contractor shall identify opportunities to accelerate the migration of all of their existing orders to the new BPA and optimize calling plans, minutes of usage, user requirements and total cost of ownership.

Desired outcomes/benefits: The objective of this agreement is to provide wireless handheld devices, services (both voice and data), and related accessories for Government agencies while achieving the best enterprise terms, conditions and pricing. In addition, the Government seeks to streamline invoicing, billing, payment, ordering, and delivery processes, and standardize reporting and analytical methods for audit and asset management. It is expected that the Contractor shall identify opportunities to accelerate the migration of all of their existing orders to the new BPA and optimize calling plans, minutes of usage, user requirements and total cost of ownership.

Who, if anyone, are you working with on driving the initiative?

Army Contracting Agency, United States Air Force, Defense Telephone Systems – Washington, and U.S. Army Network Enterprise Technology Command.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole source).

The market is highly competitive.

Describe what drives the requirement around this category.

Secure and Non-Secure voice and data is required to meet mission requirements by enhancing the ability to communicate instantly.

How is the sourcing strategy today different from what you have done in the past?

In the past, multiple contracts were awarded per supplier which diluted the Army's collective buying power. The various agreements also had different terms, conditions and often different pricing for the same or similar level of service depending on location. In addition, there was no formalized tracking of spend and usage to ensure spend levels were reasonable and users were matched to a plan appropriate to their needs.

The new sourcing strategy addresses all these elements by establishing a single enterprise level contract with each major provider that leverages the collective buying power of the Army, Air Force and DTS-W.

The BPAs provide consistent enterprise terms and conditions, eliminate activation, deactivation and other fees previously charged, and provide aggressive pricing on both cellular devices and service plans. Service plans also include a new a flat rate pricing option not previously available to Army users. The flat rate price plan helps minimize the costs of overage (using more than monthly allotted minutes) and underage (using fewer than the total minutes purchased each month) by charging the user a low flat rate per minute only for minutes used each month. Use of this pricing option takes a lot of the guesswork out of matching individual users to the appropriate pricing plan and significantly lowers the total cost of cellular service for most users relative to existing plans.

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?

Implementation is ongoing. The BPAs are being utilized upon signature date. The BPAs are mandatory for use by the Army and Army Regulation 25-1 was changed to read that all of the Army must bring their requirements to NETCOM ESTA. NETCOM ESTA is tracking Army spend. All BPAs have been awarded.

What is the current status?

Six total BPAs were awarded in March-September 2006. The implementation is ongoing. Once existing contracts are identified for transition, requirements are sent to NETCOM ESTA.

When are your next steps and actions to be completed?

All existing contracts will be transitioned by May 2007. The wireless team will be identifying additional performance metrics and developing a process to capture them.

What are the proposed dates for the final product (for example, a finalized plan and/or contract award date?) N/A

Metrics

If data is not available, please provide an explanation. (Be sure to include a baseline measurement for each metric.)

***Total spend covered within initiative ($)*:**

The projected spend for DoD is estimated at $198M (FY 04 dollars) per year.

Spend Area	Total Spend
Wireless	$198M per year (FY04)

Total cost avoidance ($, schedule, resources and/or performance), e.g., reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance.

Spend Area	Total Cost Avoidance (Projected)
Wireless	$79.2M per year/$396M for life of BPAs

Small business spend before and after initiative (% change and direction)

What were the SBA goals?

Since all the major wireless providers are large businesses, there are no SB goals. However, Cell Hire, one of the BPA holders, is a small

Lessons Learned, including Limitations and Best Practices / Success Stories

What do you recommend future initiatives do to be successful?

Lessons learned from the Army wireless team include:

Conduct Detailed Market Research: Market research was a key factor in identifying the Flat Rate plan as an option gaining popularity with large commercial businesses of similar size and scope to the Army. Flat Rate pricing was not (and still is not) a highly publicized rate structure for any of the major cellular providers because it tends to significantly reduce the revenues they achieve through the inherent inefficiencies within traditional price plans involving purchase of a fixed number of minutes per month ("bucket plans"). Unless a user utilizes exactly the number of minutes purchased each month, the effective rate per minute that they pay (total cost/minutes used) can vary widely month to month due to the cost of overage (using more than monthly allotted minutes) and underage (using fewer than the total minutes purchased each month). By charging the user a low flat rate per minute only for minutes used each month, the flat rate option provides a much lower cost for most users. Without the in-depth market research to identify this pricing option and aggressively negotiate flat rate pricing with each major provider, the savings would not have been nearly as great.

Suppliers Can Be a Good Source of Information: Determining total wireless spend for the Army was not an easy task using government data systems. In addition, the Army did not have consistent options available to track usage in order to match users to the appropriate plan for their needs and monitor changes over time. By going to suppliers with a request for information (RFI) the team was able to gain additional information on total spend levels as well as detailed usage data in order to facilitate transitioning of users to the best plan for their needs on the new BPAs.

Demand Management is an Important Source of Savings: Although the team negotiated very aggressive pricing on both devices and service plans and leveraged the collective volume of the Army, Air Force and DTS-W in doing so, a large portion of the total savings generated will result not from the improved pricing, but from better matching users with the right rate plan to avoid waste (buying more minutes than are used or using more minutes than purchased and incurring large overage charges). The Flat Rate option provides an automatic mechanism of sorts that helps minimize this waste by charging users a low flat rate per minute only for minutes used. But in other cases, the Army is also proactively looking at matching users in some cases to an appropriate bucket plan or pooling plan option when it makes sense based on their usage. This focus on managing demand to be more in line with actual requirements is a significant source of savings that has similar applications in many other commodity areas.

What would you change?

We have no additional lessons learned at this time.

Can it be implemented and corrected? N/A

If so, what is the timetable? What is the appropriate time to execute the sourcing activity? N/A

NAME OF ACQUISITION: Department of Defense-Wide Strategy Council (Strategy Council) for Acquiring Direct Care Medical Services

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome/benefits?

Scope: In an audit of the Department of Defense (DoD) Contracting practices and procedures for direct care medical services, the DoD Inspector General recommended that the Assistant Secretary of Defense (Health Affairs), in conjunction with the Military Surgeons General "develop a coordinated strategy for acquiring direct care medical services that includes the implementation of the centers of excellence concept." The scope of the Strategy Council was the acquisition and contracting activities related to direct care medical services or health care providers and support personnel. The primary objective was to develop a coordinated strategy for acquiring direct care medical services including addressing the centers of excellence concept. Within the context of this objective, the Strategy Council addressed recruiting and attracting quality providers in a timely and efficient manner and leveraging commercial best practices in order to streamline and standardize business processes for acquiring direct care medical services.

Desired outcomes/benefits*:*

The desired outcome was the development of a coordinated strategy for acquiring direct care medical services that includes the implementation of the centers of excellence concept.

Who, if anyone, are you working with on driving the initiative?

The Assistant Secretary of Defense (Health Affairs) chartered the Army Surgeon General to lead a DoD-Wide Strategy Council ("Strategy Council") which included representatives from the Army, Air Force, Navy, Veterans Affairs, and the TRICARE Management Activity (TMA). Within the Army, there was representation from US Army Medical Command Headquarters, Health Care Acquisition Activity, and the Office of the Surgeon General. The multidisciplinary Council was composed of procurement, logistics, resource management, medical, and nursing professionals.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole source).

Total U.S. health care expenditures have been spiraling upward and will continue to do so for the foreseeable future. Health care spending totaled $1.8 trillion in 2004 and it is expected to be $3.4 trillion in 2013, with an annual increase averaging 7%. The overall demand for health care services will continue to rise due to: "baby boomers" beginning to reach retirement age, the average age of the general population growing and advances in health care leading to a demand for more sub-specialties. The increasing demand for health care services coupled with shortages in some medical career fields and escalating salaries makes the medical services market highly competitive.

Describe what drives the requirement around this category.

The mission of the military healthcare system (MHS) is to ensure the nation has available at all times a healthy military force supported by a combat ready healthcare system. Active duty and civil service medical personnel can not provide all the services necessary to meet the health care needs of the military treatment facilities (MTF) especially with the high deployment and operations tempo of the Global War

on Terrorism. Therefore, direct health care services are contracted in order to supplement MTF staffing and provide care for the eligible beneficiaries.

How is the sourcing strategy today different from what you have done in the past? N/A

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved? N/A

What is the current status?

The Strategy Council mission was completed when the recommendations that had been developed were briefed through the services Surgeon Generals Offices, TRICARE Management Activity and finally to the Assistant Secretary of Defense (Health Affairs). Some of the recommendations have been incorporated in the Quadrennial Defense Review – Roadmap for Medical Transformation released 3 April 2006. The objective of Initiative 15, contracting for Health Care Services is to assess the potential for DoD to contract for health care and health care management overhead on a military installation. Implementing pilot programs will allow DoD to determine whether it is more cost effective to have a government-owned, contractor-operated organization perform ancillary services either within government facilities or in free standing facilities on military installations, using all of their own business systems. The objective for contracting for professional services (initiative 16) is to more effectively and efficiently employ contract medical personnel throughout the military healthcare system (MHS) and provide a process that is consistent throughout the system and makes health care more accessible to beneficiaries. The MHS Office of Transformation will oversee the development of a coordinated tri-Service process for acquiring contract medical services personnel.

The specific recommendations developed by the Strategy Council were:

- Establish a DoD organization with Tri-Service support responsibilities and flexible contracting authority including an "Acquisition Technical Support Center" as a Center of Excellence. This would take advantage of the similarities of direct care medical services and leverage best practices across the three Services in an efficient manner. The center would be responsible for the coordination and development of technical aspects of medical services acquisitions. Additionally, Cross-Service Contracting Centers, with warrant authority, to support contract execution for the three Services should be established. Finally, given the complex nature of medical services and the challenging supply situation for many healthcare workers, the Strategy Council recommended that medical services acquisition policy be amended to provide increased flexibility and contracting authority, including the ability of the services to establish Personal Services Schedules.

- Establish Strategic Sourcing Councils to develop strategies for sourcing key labor categories. Due to the spend analysis the top priorities should be Nursing, Radiologists, and Dentists.

- Standardize acquisition processes and related capabilities across the DoD by developing standardized data structure to collect and aggregate procurement spend data across services; standardized acquisition processes across contracting centers; standardized set of tools and templates to support acquisition of direct care medical services; and centralized credentialing process.

When are your next steps and actions to be completed? N/A

What are the proposed dates for the final product (for example, a finalized plan and/or contract award date?) N/A

Metrics

If data is not available, please provide an explanation. (Be sure to include a baseline measurement for each metric.)

Total spend covered within initiative ($):

FY 2004 spend	Total spend	Air Force	Army	Navy
	$781M	$118M	$491M	$171.5

A detailed analysis of the FY04 dollars spent showed that the Air Force, Army, and Navy together accounted for $781M in direct care medical services. The Air Force accounted for $118M, the Navy $171.5M, and the Army $491M. Over 180 medical service labor categories were identified and the top 10 labor categories accounted for nearly 56% of the total spend, with Registered Nurses, Radiologists, and Dentists in the top three. Out of the top 10 labor segments, 9 are acquired by all three Services: Registered Nurses $120.2M, Radiologists $50.3M, Dentists $49.3M, Dental Support $46.3M, Family Practice Physicians $38M, Advanced Practice Nurses $29M, Emergency Medicine Physicians $28.7M, Physician Assistants $27.6M, and Licensed Practical Nurses $19.3M. Nursing and radiology ranked as the top 2 or 3 for each of the Services. Labor segmentation also shows that 81% of total direct care medical services spend is concentrated in the top labor segments. Six markets accounted for $403M of the spend: National Capital Area $138M, San Antonio, TX $123.9M, Tidewater, VA $41M, Killeen, TX $35.7M, San Diego, CA $32.8M, and Fayetteville, NC $30.6M. A look at the dollars spent according to the TRICARE Regions showed: West $94.8M, South $322.26M and North $180M for a total of $597.1M. In addition, all three services acquire medical services from many of the same suppliers. A review of the top 25 medical service contractors revealed that 11 of the top 25 contractors have contracts with more than one service. In addition, the top 25 contractors received $455M of the $781M spend.

Total cost avoidance ($, schedule, resources and/or performance), e.g., reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance.

The Strategy Council did not determine cost avoidance when developing the recommendations.

Small business spend before and after initiative (% change and direction)

What were the SBA goals? N/A

Lessons Learned, including Limitations and Best Practices / Success Stories

What do you recommend future initiatives do to be successful?

A key element in strategic sourcing initiatives is metrics, baseline costs, projected costs, and cost avoidance/savings. Reviewing spend data for the three Services revealed that there was a lack of standardized spend data elements, therefore it is difficult to capture and use the spend data for planning and coordination. Development of standardized labor categories and data elements would benefit in the analysis of the spend data.

What would you change?

The timeline for the coordination of the recommendations through the Services Surgeons General and TMA took longer than expected. However, some of the issues occurred due to the changes in key personnel and organizational structures leading to delays in briefing schedules and having to repeat briefings due to personnel changes.

Can it be implemented and corrected? N/A

If so, what is the timetable? What is the appropriate time to execute the sourcing activity? N/A

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C. Navy

Department of the Navy
Annual Report on Strategic Sourcing
Fiscal Year 2006

United States Marine Corps (USMC) Information Technology (IT) Commodity Team

Purpose / Strategy

The scope of the USMC IT Commodity Team (IT CT) project was limited to IT procurements that falls outside the purview of the Navy-Marine Corps Intranet (NMCI).

The primary desired outcome and benefits is a reduction in the total cost of acquiring and using IT Equipment and Services. Other desired outcomes and benefits are captured in the objectives of USMC's Strategic Purchasing Initiative (SPI) and are listed below.

- Establish enterprise-wide cross-functional acquisition strategies
- Reduce Total Cost of Ownership for acquired goods and services
- Improve USMC's ability to meet socio-economic goals
- Standardize acquisition business processes
- Improve the skills of Marine Corps' acquisition community

The Marine Corps Business Enterprise Office established the SPI and launched the various USMC commodity teams. The IT CT is led by Mr. Dave Berry, Lead Contracting Officer, Information Systems & Infrastructure, PG10, Marine Corps Systems Command (MCSC).

Other parties that have been involved in the IT CT efforts include USMC Installations and Logistics (I&L), Deputy Chief Information Officer (CIO) MCSC, MCSC Marine Corps Common Hardware Suite (MCHS) program office, end-users (i.e., Programs of Record), incumbent suppliers and HQMC C4.

Research on the IT Hardware market found it is comprised of four product segments – Client Computing, Enterprise Computing, Storage Subsystems, and Digital Document and Imaging.

Economics and competitive dynamics of markets vary by segment - while the Client Computing segment is fragmented, server and storage segments are fairly consolidated. Some suppliers compete across all segments while others are more niche players.

From an Original Equipment Manufacturer (OEM) supplier perspective, the IT Hardware market is fairly fragmented, although Dell (18%) and HP (16%) hold significant market share.

Market dynamics:

- Very few, if any, suppliers are fully integrated (i.e., manufacture all product components internally). A majority of OEM manufacturers are assemblers that purchase hardware components from generic players that manufacture in low-cost countries.

- In the hardware market, customers perceive little difference among suppliers, particularly for Client computing products such as laptops and desktops. More and more suppliers are offering value-added services as a basis for differentiation.

- Given the slow growth and high number of competitors, corporate players are starting to exit the market (e.g. IBM recently exiting the PC business by selling the product line to a Chinese company (Lenovo) in 2004) or consolidate within the market (e.g., HP acquiring Compaq in 2002).

- As products become less differentiated, we will likely see further consolidation of OEMs, reducing the number of available brands and increasing the importance of value-added services.

In summary, the IT Hardware market is highly competitive with a relatively few number of suppliers. The most effective way of interacting with this supply base is through a combination of *both* collaboration and competition.

Implementation

Following approval of the IT Commodity Strategy by the IT CT in December 2005, activity began to implement the approved recommendations. The five main approved recommendation areas were:

1. Establish/enhance enterprise vehicles for product areas with significant future demand
2. Implement advanced pricing techniques
3. Manage existing USMC configurations to lower total costs
4. Develop enhanced demand management processes
5. Evaluate and streamline the IT Procurement process

Implementation activities for some of these recommendations are in progress. To date, significant progress has been made towards implementing recommendation numbers 1 and 3 through enhancing Enterprise Vehicles and Managing Configurations.

The IT CT has worked to enhance the main Blanket Purchase Agreement (BPA) that contains contracts for Laptops, Desktops, and Servers, prior to renewal. Collaboration workshops have been facilitated with the BPA suppliers as well as with end users with the goal of managing IT hardware configurations to reduce cost and provide support to End Users.

The IT CT is currently in the process of fully implementing all its recommendations, including numbers 2, 4, and 5. Next steps include:

- Implement enhanced demand management processes to ensure that ordering is accomplished more effectively to reduce internal costs as well as purchase in greater quantities to reduce purchase price

- Compete the master BPA for laptops, desktops, and servers leveraging the workshops that have been held with End Users and Vendors
- Implement advanced pricing techniques within the new BPA
- A contract is expected to be awarded by spring of 2007.

Metrics

The total annual USMC IT (Hardware, Software and Services) spend in FY04 was approximately $223 million, with IT Hardware (primary focus of IT CT) accounting for approximately $84 million of the total—workstations, laptops, servers and handheld devices make up a majority of the IT Hardware spend.

IT Hardware was selected as the primary focus because it is easier to define specifications and requirements around bundles of technology and also, IT Hardware sourcing opportunities were considered greater than IT Services, given IT Services specialized offerings.

Total IT Hardware cost avoidances projected over 3 years is nearly $8 million.

		Conservative
3 year FY06-FY08	Total Volume ($M)	195.3
	Total Cost Avoidance ($M)	8.6
	Less: Investments ($M)	(0.9)
	Net Cost Avoidance ($M)	7.7
	Net Cost Avoidance %	3.9%

100% of IT Hardware spend has been competed by the Marine Corps. This practice will continue with the renewal of the IT Hardware BPAs.

The acquisition strategy established for IT Hardware notes the need for small business participation and recommends that USMC consider awarding one of its BPA slots to a small business. Awarding to small business would greatly increase the small business participation, which accounted for 4.9% of IT Hardware spend in FY04.

Small Business Participation goals were no different for IT Hardware than any other good or service which was 31.3% service wide in FY04. The USMC currently utilizes four (4) separate Blanket Purchase Agreements (BPAs) as the acquisition vehicles to satisfy the bulk of its non-Navy-Marine Corps Intranet (NMCI) laptop, desktop and server requirements. Of these, one BPA is held by EPlus which is a small business firm. When requirements are received, the contracting office will compete the requirements across the BPAs.

Lessons Learned, including Limitations and Best Practices / Success Stories

To be successful, we recommend that future initiatives:

- Involve key stakeholders early on in the strategic sourcing process. Seeking validation from them through every step of the analysis and including them in the development of the commodity

strategy will make the stakeholders more likely to accept and implement the commodity strategy recommendations.

- Stakeholders will have an increased sense of ownership and recognition of savings available for their reinvestment because they were involved in the process and validated the analysis.
- Look at the supply market from the market's perspective and learn to see the market as it sees itself.
- Allow "avoided costs" to remain at the purchasing level to improve ability to satisfy mission requirements and provide incentive for further improvement.

While we continue to capture and implement lessons learned, we would make no significant changes at this time.

The process leading up to the development of the commodity strategy takes approximately six to nine months to execute. Existing regulations and the strategy selected will dictate the time to complete implementation and move into the routine performance management phase. The last two steps of the strategic sourcing process are particularly important and require significant energy to complete.

Navy Office Furniture

Purpose / Strategy

The scope of the Office Furniture Commodity Team is development of a DON-wide cross-functional acquisition strategy for office furniture in order to improve total cost of ownership for office furniture while serving the needs of various DON customers The definition of Office Furniture follows the description for the General Services Administration Federal Supply Schedule 71 I. Examples include, but are not limited to: Furniture Systems and Workstation Clusters; Executive Furniture Single Item Accent & Specialty Pieces; Tables and Accessories; System Type Tables and Accessories; Acoustical Wall Treatments; Filing and Storage Cabinets, Shelves, Mobile Carts, Dollies, and Racks & Accessories.

The expected outcome of the project is to more effectively and efficiently deliver furniture to offices through the use of the Department of Defense (DOD) EMALL as an Internet ordering portal to facilitate the acquisition of office furniture. The DOD EMALL will produce costs savings by taking advantage of a competitive online environment. Additionally, there are non-direct savings by having the items delivered to the office versus an administrative employee driving to Office Furniture stores to pick up furniture.

The Office Furniture Commodity Team is led by Mr. Jamey Halke, at Naval Supply Systems Command (NAVSUP). Team members include representatives from Naval Air Systems Command (NAVAIR), Naval Facilities Engineering Command (NAVFAC), Commander, Fleet Forces Command (CFFC), Commander, Navy Installations (CNI), Fleet Industrial Support Centers (FISC) members, Navy Education and Training Command, Pensacola (NETC), and USMC headquarters.

The team's research indicates there are very few small business manufacturers of office furniture in the industry, most are large businesses while some are foreign businesses. NAVFAC, the primary customer for office furniture, has identified a suite of furniture manufacturers who provide a significant portion of the Navy's furniture requirements, which included small businesses. While large firms generally utilize small business subcontracting arrangements for the delivery and installation of their products, limited opportunities exist in this commodity to rely on small business for the entire sourcing strategy.

In the Office Furniture Commodity Group small business and UNICOR have significant stakes. While the Navy seeks to support small business and the UNICOR Program, the proposed acquisition strategy maximizes the use of small businesses as subcontractors. The trade-off is a sub-optimized cost savings. UNICOR, however, will also be awarded a BPA to ensure they are afforded an opportunity to compete for each order as required.

Office furniture is essential to support employees in their activities to carry out their office's mission. Office Furniture is needed on a recurring basis requiring a supply chain management methodology to ensure availability at optimal prices and delivery terms. The Office Furniture Commodity Council also found that customers were more concerned with personal choices and immediate availability. When ordering online, prompt delivery was a significant concern. Customers were not interested in limiting choices and controlling demand and generally valued immediate availability more than savings.

The Commodity Council found that the Navy currently obtains office furniture online through the GSA Advantage, UNICOR, the DOD EMALL, or open market. It was clear that much of the Navy's office furniture was purchased primarily using the purchase card with little centralized buying. The result is limited insight into furniture spend. The available information lacked the granularity for making decisions

regarding demand management and price leveraging. Further, there is very little detail on the type of office furniture being purchased off contractual vehicles reported from DD 350 data.

The Navy's Office Furniture Acquisition strategy will utilize the DOD EMALL to standardize the ordering process and provide cost-effective, customer-focused delivery of office furniture; take advantage of the economies of scale; compile purchase data through the DOD EMALL; ensure compliance with statutory requirements to purchase products furnished by people who are blind or severely disabled under the Javits-Wagner-O'Day Act (JWOD) program; and maximize small business opportunities.

The strategy consists of a near term and long term acquisition plan to improve sourcing of office furniture.

The near term acquisition plan is to direct Navy Office Furniture spending to the DOD EMALL with limited approved exceptions.

Policy

- The team will likely recommend Navy issue policy to make use of the DOD EMALL mandatory to acquire office furniture.
- The Commands will be required to update their internal websites to direct users to DOD EMALL.
- The long term acquisition plan is to continually improve the sources of supply on DOD EMALL through a vendor management strategy developed, implemented, and managed by the Navy Office Furniture Commodity Manager.

Implementation

The near term acquisition plan is to direct Navy Office Furniture spending to the DOD EMALL with a two-stage solution:

In stage 1, DON personnel will be directed to use existing contracts for office furniture via the DOD EMALL for purchases less than or equal to $2500. This will allow use of existing suppliers and technology, easing the implementation of the program, and permit continued support of small and minority vendors, while ensuring the availability of data that will enable spend analysis and better understanding of buying behavior, ultimately ensuring continued price gains and process improvements in subsequent stages.

In Stage 2, purchases greater than $2500, which make up a very small percentage of transactions (8%) but the majority of dollar volume (63%), will be against established blanket purchase agreements awarded against GSA Federal Supply Schedules.

The Acquisition Strategy and the Commodity Management Plan are projected for completion by November 2006. The next step will then be to establish BPAs awarded against GSA Federal Supply Schedules, estimated for January 2007.

The long term acquisition plan is to continually improve the sources of furniture on DOD EMALL through a vendor management strategy developed, implemented, and managed by the Navy Office Furniture Commodity Manager. Directing Navy Office Furniture spending to a single source, DOD EMALL, will ensure centralized availability of data which will enable more thorough spend analysis and a better understanding of buying behavior. This will then be leveraged for further process improvements and sourcing strategies to be utilized in subsequent stages.

An electronic campaign to support the mandatory DOD EMALL registration by all purchase card holders will be designed to increase the usage of DOD EMALL for all office furniture purchases.

Surveys will be conducted to gather customer satisfaction ratings on the usability of the DOD EMALL and learn what areas of the DOD EMALL need to be enhanced to drive further satisfaction with the Navy shopping experience.

The commodity council will work with the DOD EMALL program office to enhance the DOD EMALL portal based on survey input. Focused training for DOD EMALL will be implemented as needed to improve customer understanding of the DOD EMALL operations. Training on DOD EMALL is not mandatory; however, the following training opportunities are available:

- DoD Electronic Mall Users Manual accessed from the logon page DOD EMALL Tutorial CD
- Classroom Training –conducted by DOD Trainers at various locations throughout the United States

Metrics

Total spend covered within the initiative is approximately $104 million, not including Design-Build military construction (MILCON). Based on an assumption that 65% of office furniture spend is addressable, and using an industry standard of 10% reduction, annual savings is estimated at $6.7M.

The goal for competed spend is 100%, including actions below $2500. This is facilitated by comparison of pricing on the DOD EMALL. The current percentage of competition is unknown. A large portion of the furniture procurement is embedded in the NAVFAC construction contracts or acquisition through the Government purchase card and competition statistics are not identifiable.

The overall Navy small business goal is 20%, however, it’s anticipated that the Office Furniture solution will outperform this goal with an estimated 40% of spend going to small businesses.

Lessons Learned, including Limitations and Best Practices / Success Stories

To be successful, we recommend that future initiatives:

- Obtain senior management's perspectives and goals - such as savings or a specific goal for economic programs. The Commodity Council members frequently have competing agendas or individual goals.
- Keep the groups small to facilitate reaching a consensus

In addition, the commodity team feels that the long term acquisition plan should be to reduce the number of suppliers to better leverage pricing. Enhancements could be made to DOD EMALL to improve reporting functionality of the Business Objects Tool, such as sorting through UPC codes, as well as develop an FPDS-NG interface to capture reporting information for actions over $2500.

Navy Office Supplies

Purpose / Strategy

The scope for the project was limited to Office supplies. The definition of Office Supplies follows the description for the General Services Administration Federal Supply Schedule 75, Special Item Number 200, as commercially available off-the-shelf office items. Examples include, but are not limited to: binders, clips and fasteners, staplers, pencils, pens, paper, printer and toner cartridges, calendars, pads, notebooks, desk accessories, filing supplies, Post-It notes, scissors, tape, waste containers, and data storage media (compact discs (CD), diskettes, digital tape).

The expected outcome of the project is to more effectively and efficiently deliver office supplies through the use of the Department of Defense (DOD) EMALL as an Internet ordering portal. The DOD EMALL produces costs savings by taking advantage of pre-existing vendor contracts and vendors in the DOD EMALL. Additionally, there are non-direct savings by having the items delivered to the desktop versus an administrative employee driving to Office Supplies stores to pick up items.

The Office Supplies Commodity Team is led by Mr. Jamey Halke, at Naval Supply Systems Command (NAVSUP) with team members representing NAVAIR, Commander, Fleet Forces Command (CFFC), Commander, Navy Installations (CNI), FISC San Diego, Navy Education and Training Command, Pensacola (NETC), and USMC Headquarters.

The team determined that the office supplies market is a very competitive retail environment with very few domestic small business manufacturers. Most manufacturers are large businesses and foreign businesses. Beyond the manufacturer level there are two main national wholesalers: SP Richards Co. (owned by Genuine Parts) and United Stationers.

Consumable office supplies are needed on a recurring basis requiring a supply chain management methodology to ensure availability at optimal prices and delivery terms. Customers are more concerned with ease of purchase and immediate availability. When ordering online, prompt delivery was a significant concern. Customer activities were not interested in limiting choices and controlling demand and generally valued immediate availability more than savings.

Prior to implementation of the Navy Office Supply policy, the Navy was obtaining office supplies through ServMarts, online (through the GSA Advantage and the DOD EMALL), or open market. The commodity team found that office supplies were being purchased primarily by purchase card with little centralized buying. This resulted in a very limited amount of spend data being available for analysis. The majority of data that could be obtained was tied to a small amount of purchase card purchases and provided by the vendors.

The Navy's Office Supply Acquisition strategy utilizes the DOD EMALL to standardize the ordering process and provide cost-effective, customer-focused delivery of office products; takes advantage of the economies of scale; compiles purchase data through the DOD EMALL; ensures compliance with statutory requirements to purchase products furnished by people who are blind or severely disabled under the Javits-Wagner-O'Day Act (JWOD) program; and maximizes small business opportunities.

The strategy consists of a near term and long term acquisition plan to improve sourcing of office supplies.

- The near term acquisition plan directed Navy Office Supply spending to the DOD EMALL with limited approved exceptions (such as FISC San Diego Virtual ServMart contract, etc).

- Policy
- Navy issued policy to make use of the DOD EMALL mandatory to acquire office supplies.
- The Commands updated their internal websites to direct users to DOD EMALL.
- The long term acquisition plan is to continually improve the sources of supply on DOD EMALL through a vendor management strategy developed, implemented, and managed by the Navy Office Supplies Commodity Manager.

Implementation

The Navy policy for mandated use of DOD EMALL (with limited exceptions) was signed on 12 Apr 2006 and was implemented effective 01 May 2006.

While support of socio-economic programs is important, the over-riding success of the Office Supplies Commodity Council is dollar savings and gained efficiencies. The goals are met on an on-going basis as users become more comfortable searching and comparing products and competitive pricing on the DOD EMALL.

An electronic campaign to support the mandatory DOD EMALL registration by all purchase card holders is increasing the usage of DOD EMALL for office supply purchases. Training on DOD EMALL is not mandatory; however, the following training opportunities are available:

- DoD Electronic Mall Users Manual accessed from the logon page
- DOD EMALL Tutorial CD
- Classroom Training –conducted by DOD Trainers at various locations throughout the United States

Communication and policy efforts have influenced the growth of Navy users. Navy enrollment on the DOD EMALL is now over 10,000 individuals. In September 2006 there were over 40,000 office supply purchases made through the DOD EMALL.

The long term acquisition plan is to continually improve the sources of supply on DOD EMALL through a vendor management strategy. There are currently over 300 vendors on the DOD EMALL providing office supplies. Working with GSA and the Federal Strategic Sourcing Initiative Team, the team is planning the establishment of a reduced suite of office supply BPAs which will be available through the DOD EMALL. This will allow the Navy to leverage spend through the smaller source base. The new GSA BPAs are projected to be awarded by January 2007.

Metrics

The total spend covered within the initiative was approximately $97M. Based on an assumption of 65% of office supplies being addressable, and using a conservative industry standard of 10% reduction, annual savings was estimated at $6.3M.

The Navy Office Supply Strategy relied on existing vehicles and did not involve the competition and award of new contracts/BPAs, etc. The DOD EMALL facilitates competition of individual items on a transactional basis by allowing the shopper to select the lowest priced item from among a selection of sources.

The overall Navy small business goal is 20%; however the Office Supply Goal is outperforming that goal. In the first months of implementation, over 60% of transactions and dollars spent in DOD EMALL purchases are being placed with small businesses.

Lessons Learned, including Limitations and Best Practices / Success Stories

During the strategic sourcing process, two issues emerged that have the potential to affect future initiatives.

There are too many sources on the DOD EMALL to effectively leverage the market. Working with GSA and the FSSI Office Supply Team may result in a smaller number of vehicle awards and establish a Federal Corridor for DOD use. The existing Navy policy can be tailored to work with the GSA solution once they award the BPAs, keeping in mind concerns to meet and sustain current support for socio-economic programs.

The Trade Agreements Act continues to be an issue - especially for the toner cartridge purchases. This will remain an issue even if the FSSI Team establishes office supply BPAs. We are currently working on solutions to meet the requirement of the Trade Agreements Act.

In addition, the commodity team feels that the long term acquisition plan should be to reduce the number of suppliers to better leverage pricing. Enhancements could be made to DOD EMALL to improve reporting functionality of the Business Objects Tool, such as sorting through UPC codes, as well as develop an FPDS-NG interface to capture reporting information for actions over $2500.

Navy-led DOD-wide Clerical Services

Purpose / Strategy

The Clerical Services project is one of the pilot commodity teams for the DoD-Wide Strategic Sourcing (DWSS) Program. Clerical services are defined to include administrative and clerical functions including word processing, operation of telephones and switchboards, document preparation, basic accounting, mailroom functions, and other miscellaneous office activities.

The purpose of the Clerical Services commodity initiative is to provide immediate benefits to the services users in the form of a reduction in the total cost of ownership, improvements in attaining socio-economic goals, improved visibility into Department-wide clerical services spend, a streamlined and standardized acquisition business process, and a baseline on which to expand and further enhance the clerical services acquisition strategy.

As part of DWSS, a cross-functional, cross-service Commodity Team was established for Administrative Services. The Commodity Team is led by the Navy and made up of participants from Army, Navy, USMC, Air Force, Defense Logistics Agency (DLA), and Missile Defense Agency (MDA).

The team's analysis of the contract labor industry found it to be highly fragmented with roughly 10 national services providers and well over 20,000 local and regional services providers. The contract labor market exhibits a large number of small firms, with three quarters meeting the SBA size standard – making this commodity well suited for aggressive socio-economic targets. The growth in contract labor demand has led to a shifting basis of competition from fee-based to service level-based competition making suppliers very receptive to identifying more efficient ways of doing business with customers.

DoD-wide spend analysis reveals a pattern of overall fragmentation, even though the top three suppliers account for one-third of spend. DOD requirements for Clerical Services include: surge requirements, ability to rapidly downsize workforce without FTE layoffs, A-76 re-organizations, sudden changes in funding, FTE hiring limitations, and covering temporary vacancies.

Previously, with no Department-wide strategy for sourcing Clerical Services, Single Award Multiple Year contracts were awarded by each department and task orders were typically not competed. The incumbent supply base was primarily small business. While most awards were not 8(a) set asides they often resulted in awards to 8(a) firms. Task orders were written with both performance based statements of work as well as Level of Effort.

Vendors were typically selected based on some combination of past performance, technical, and price requirements. Contracts differed in terms of unique end user requirements; some were relatively standard across all users, while others had unique requirements (skill sets, lead time) that differed by location.

The new DWSS approach to sourcing Clerical Services is a DoD-wide strategy enabling cross organization usage. Multiple Award Indefinite Delivery Indefinite Quantity (IDIQ) Contract Vehicles have been set up by geographical region (Philadelphia, PA, Washington, DC, and Norfolk, VA) with Task Orders competed among available suppliers.

Task orders will be executed electronically through the use of a web-based, e-business procurement Portal, designed to facilitate performance-based service acquisitions, as well as to improve business intelligence and reduce cycle time. The portal will focus all Task Orders to a service level based competition by excluding Terms & Material contracts.

Implementation

Following a comprehensive Request for Information, FISC Norfolk Philadelphia Office issued an 8(a), HubZone, Service Disabled Veteran Owned Small Business (SDVOSB) set-aside solicitation (covering Philadelphia, Washington DC, & Norfolk regions).

After receiving and reviewing more than 100 offers, award of Clerical Services corporate contracts is projected for October 2006, with the Ordering Portal expected to stand-up in November 2006.

Metrics

Total spend covered for the commodity within the initiative was $68.9 million in FY 2003 for DOD and $45.2 million across contracting offices in the three pilot territories.

The estimated savings range is listed below in (Table 1).

Table 1

Saving Scenario Summary - Clerical Services				
		With Compliance & Change Mgmt	Without Technology	Without Change Mgmt
Aggressive Scenario	Total Volume ($M)	68.9	68.9	68.9
	Total Savings ($M)	13.72	10.97	6.86
	Less: Investments ($M)	1.95	0.77	1.34
	Net Savings ($)	11.77	10.2	5.52
	Net Savings %	17.1%	14.8%	8.0%
		With Compliance & Change Mgmt	Without Technology	Without Change Mgmt
Base Scenario	Total Volume ($M)	68.9	68.9	68.9
	Total Savings ($M)	7.96	6.27	4.04
	Less: Investments ($M)	1.95	0.77	1.34
	Net Savings ($)	6.01	5.5	2.7
	Net Savings %	8.7%	8.0%	3.9%

Under the new Multiple Award Contract (MACs), all spend in the pilot program is competed.

While SBA Small Business Participation goals are no different for Clerical Services than any other good or service, the Small Business spend was approximately 74% prior to the initiative. With the 100% small business set-aside solicitation, improvements beyond 74% are expected.

Lessons Learned, including Limitations and Best Practices / Success Stories

In future initiatives it is recommended that key stakeholders be involved early on in the strategic sourcing process. Validation should be sought from them through every step of the analysis and they should be included in the development of the commodity strategy. Stakeholders will be more likely to accept and

implement the commodity strategy recommendations if they have a sense of ownership because they were involved in the process and validated the analysis.

When conducting a spend analysis ensure that the spend data is accurate and decisions are not based on high-level reporting system data (DD-350). It is critical to pull actual contracts and analyze line items, specifically if it is the type of good/service that often gets bundled into larger contracts.

While socio-economic goals include meeting socio-economic numeric goals, teams should remember also to develop small businesses. Just because a large business may be more efficient in terms of pricing is not rationale enough not to utilize capable small businesses.

There were a number of specific lessons learned from the Clerical Services Commodity Team related to four basic areas.

Funding It is important to guarantee funding for many critical aspects of the Commodity Team, including but not limited to:

- Any technology for ordering systems
- Funding of contract minimums for IDIQ contracts if the strategy necessitates usage
- Support for Program Management
- Communication activities that must be undertaken such as road shows
- Personnel and authoritative support to drive the initiative across requesting agencies

There are many different ways for this funding to be attained, such as charging for the service, or guarantees from certain stakeholders. This particular Commodity Team had issues in this area due to the "DoD-Wide" nature of the team that were corrected through personal contacts rather than the DWSS process.

Requirements The Strategic Sourcing process can be lengthy, and keeping potential customers committed to use the vehicle upon implementation can be very challenging. Especially in this initiative where the vehicle usage will not be mandatory, having committed customers is critical. This particular Commodity Team had issues in this area due to an initial team decision to mandate the vehicle, and a late switch to make it non-mandatory.

Policy If the team is attempting to influence any policy, such as mandated use of a new vehicle, it is critical to ensure that there is a long timeframe for this process. Also, the team needs to ensure that any decisions are captured in writing, and officially signed off, to ensure no late changes. Changes in this area can significantly impact the direction and success of the strategy.

Technology If the team is leveraging technology two things should be considered:

If a website is to be used to host any type of communications or ordering platform, the process of setting up that "landing page" can be cumbersome and time consuming. There are significant regulations and bureaucracy involved in setting up a new page on a domain and ensuring that the page is set up in a timely fashion.

If the team is operating in a cross-Service environment and is leveraging technology for Ordering, the team needs to be very sensitive to political issues that may impact political support for the use of existing technology. Often these issues may not be very clear to the technical team and anything that can bring these issues to the forefront earlier can assist in eliminating potential delays.

Timing for the sourcing activity is dependent on the process to develop the commodity strategy and implementation. The process leading up to the development of the commodity strategy takes approximately six to nine months to execute. FAR and the strategy selected will dictate the time to complete implementation and move on into the routine performance management phase.

D. DLA

Defense Logistics Agency
Annual Report on Strategic Sourcing
Fiscal Year 2006

Executive Summary – High-Level Component View

Overview of report

The below report provides a high-level overview of the Supplier Relationship Management (SRM) transformation initiative and the Strategic Material Sourcing (SMS) initiative. The majority of this report will focus on SMS as it is the more quantifiable of the two programs. Included in the following pages is background information on the initiatives, recent accomplishments along with a schedule of events to come, and select metrics from the programs.

SRM is DLA's umbrella initiative designed to support the Agency's move from being a manager of supplies to a being a manager of suppliers. SMS is specifically directed at Class IX Hardware items and is intended to build on the successes achieved in similar efforts in the Troop Support commodities. SMS is focused on developing long-term agreements with suppliers ranging from standard long-term contracts, to corporate contacts, tailored logistics support arrangements and strategic supplier alliances (SSA). The strategy chosen is based on assessment of business activity and customer needs. SMS targets a population of items that will have the most affect on the Agency's business and ability to support the war fighters. That population consists of a small percentage of DLA managed items that account for approximately 80% of sales and demands and an additional group of items selected because of their potential affect on readiness.

What are the Strategic Sourcing goals, i.e. cost, schedule, resources, and / or performance?

FY06 Strategic Sourcing Goals:

- Inventory Savings:
  - The SMS program accounted for $92.8 million in inventory savings towards a FY06 goal of $64 million.
  - The FY07 goal for inventory savings is $64 million.
- Long-Term Contract (LTC) Obligations:
  - 54.1% of hardware items on LTC towards a FY06 goal of 54%.
- Annual Demand Value (ADV):
  - ADV of items on SMS in FY06 was $3.1 billion (55.9%) towards a FY06 goal of $3.6 billion (69.5%).
- Annual Demand Frequency (ADF):
  - ADF of items on SMS in FY06 was 5.2 million actions (57.1%) towards a FY06 goal of 6.1 million actions (68%).
- FY07 SMS population goals:
  - The SMS program has identified a FY07 population of 303,936 NSNs. See **Appendix A** for the FY07 population broken out by category.

Metric: Total number of current Strategic Sourcing activities, Strategic Sourcing initiatives, and / or commodity councils

The SMS program's sole aim is dedicated to improving DLA acquisition using strategic sourcing tools. DLA does not measure the number of unique strategic sourcing activities but our range of activities extends across the enterprise. Examples of strategic sourcing activities include:

- An annual spend analysis is completed for the entire DLA item population to target a subset of items that have strategic importance to the Agency and our customers.
- An additional spend analysis is conducted from a supplier perspective to identify suppliers who could be candidates for strategic agreements with the Agency.
- Risk assessment of SRM activities within each organization of the enterprise with follow-up next steps outlined at the organizational level.
- A J-7 Strategy Session with senior DLA management to review the results of the risk assessment.
- Extensive communications with suppliers including roundtables for the strategic partners and Industry Days for all suppliers.
- Continued leverage of the new Strategic Material Sourcing Group (SMSG) organization created to work within the new Business Systems Modernization (BSM) construct.
- Target items for SMS program focus.
  - Strategic Supplier Alliances (SSA), 28 formed to date.
  - Supply Chain Alliances (SCA), 13 formed to date, 10 signed in FY06.
  - Performance Based Logistics (PBL) Agreements, 27 signed to date.

Metric: Total number of individuals trained in strategic sourcing within the year

The following training opportunities were available during FY06:

1) Strategic Material Sourcing Group (SMSG) Roadshow:

   - The SMSG Roadshow was training intended to familiarize end users with the new SMSG roles, responsibilities, touch-points, and business rules, and to discuss BSM metrics and reports relevant to measuring SMSG performance.
     - Approximately 450 individuals trained during FY06.

2) Fundamentals of Defense Supply Chain:

   - This week long class emphasizes the need for improved customer/supplier relationships and strategic sourcing.
     - Approximately 20 individuals trained during FY06.

Do you have a communications plan? If so, what is it?

The SRM Communication Plan, which includes strategic sourcing activities, was signed and approved by the SRM Program Manager on October 17, 2005. The Plan describes the methodology for all SRM correspondence which includes a communications calendar, a message approval process, and the different recommended communication approaches. The Plan was implemented in order to drive awareness, knowledge, and preparation of SRM among employees.

Other information that the Department, Congress, or OMB should know and is not addressed

In May 2006, DLA established the Contracting Services Office of DLA Enterprise Support (DES). Centers of excellence were established from multiple contracting offices which previously performed a full-range of procurement activities to operate, support and maintain individual DLA Field Activity and DLA Headquarters. Under this concept, each center specializes in specific contracting areas (e.g. information technology, contractor support, financial consulting) for the enterprise, thereby eliminating duplication and leveraging Agency buying power. The new organization also gained efficiencies and economies through streamlining and standardizing operations.

Initiative Level Information

Initiative Level Information: For each planned or active initiative within the Component, provide:

Purpose / Strategy

What is the scope of the project and the desired outcome / benefits?

The Strategic Material Sourcing (SMS) initiative began in 2000 on a limited basis, initially focused only on hardware and spare parts. In March 2004, DLA expanded SMS to a broader range using Supplier Relationship Management (SRM) as the umbrella initiative, under which SMS then fell. Near the end of FY05, the Strategic Material Sourcing Group (SMSG) was developed and deployed in FY06. SMSGs are multi-functional BSM organizational units with responsibility for developing Supply Chain execution strategy that examine the effectiveness of current sourcing approaches in terms of their ability to meet customer demand requirements and internal DLA goals, identify optimal sourcing strategies for groups of items in their Supply Chain, and provide a strategic approach to managing supplier relationships. The acquisition strategies available to the SMSG are discussed below with the exception of automated procurement. Automated procurement is used for low dollar value acquisitions with a robust supplier base (tactical buys). Automation is used to allow the DLA acquisition workforce to focus on the more complex strategic buys associated with the SMS program.

SRM is a strategy to build two-way relationships with key suppliers in order to evaluate and manage supplier capability and jointly solve problems. Within the addition of SRM is the expansion to all organizations of the DLA enterprise including Supply Chains and other organizations performing acquisition functions such as Defense Distribution Command (DDC), Defense Reutilization Marketing Service (DRMS), and Defense Automated Printing Service (DAPS) as examples. SRM now involves the entire enterprise and provides structure to the supplier facing tools being developed.

In setting the SMS population, the SMSG incorporates a requirements input. Market analysis is conducted to determine what acquisition avenues are available for given items as they enter the acquisition pipeline. The primary supplier focused strategic sourcing initiatives under the SRM umbrella include Strategic Material Sourcing (SMS), Strategic Supplier Alliances (SSAs), Supply Chain Alliances (SCAs), and Performance Based Logistics (PBL) agreements. As the primary strategic sourcing tool within the SRM program, the majority of this report will focus on the SMS initiative.

SMS focuses on stratifying and awarding high demand/sales and readiness driver hardware items through long term agreements. SMS targets a relatively small subset of the 3.6 million hardware items managed by DLA. The total SMS population on LTC is 153k items. While the FY06 targeted SMS items account for only 11% of the DLA managed hardware items, they account for 88% of hardware procurement

actions and 87% of hardware sales. DLA's total FY06 SMS Long-Term Contract obligation rate was 54.2%.

As mentioned above, two other strategic sourcing tools are SSAs and SCAs. SSAs are long-term partnerships that have been formed with top suppliers. The alliances are designed to incorporate all the sole source items these companies provide to DLA. The long-term focus of SSAs facilitates relationships with companies that have significant strategic value, resulting in benefits to the customer, the supplier, and DLA. To date, DLA has formed SSAs with 28 suppliers. SCAs are a newer type of alliance that do not require the same level of management and interaction as SSAs, and these partnerships are typically formed with second-tier suppliers. SCAs expand the alliance possibilities to suppliers of a predominately competitive nature, as well as OEM suppliers not included as an SSA. To date, SCAs have been established with 13 suppliers, satisfying the goal of having 12 in place by FY07. Each SSA and SCA supplier is assigned a Supplier Relationship Manager (SRM) who serves as the primary point of contact within DLA (See **Appendices B and C** for a list of SSAs and SCAs, respectively).

Another strategic sourcing tool is PBLs; DLA's vision is to partner with PBL Product Support Integrators (PSI), both commercial and organic, to bring value to the warfighters, as well as leverage existing Strategic Supplier Alliances (SSA) and other DLA initiatives and become a provider of choice. The overall goal is to implement between five and fifteen PBL/Performance Based Agreements (PBA) by FY11. DLA is an active participant in twenty-nine PBLs/PBAs and has planned for twelve to be implemented in FY07 (See **Appendix D** for a list of current PBLs). DLA's participation is expected to increase support to warfighters through increased materiel availability, improved reliability, and enhanced obsolescence management.

Who, if anyone, are you working with on driving the initiative?

SRM/SMS, a J-7 initiative, is currently hardware-driven, and the primary POCS are located at HQ, DSCR (Aviation), DSCC (Land & Maritime), and DSCP (C&E). The stakeholders at these locations are the current drivers of the initiative, but a goal of the program is to be applied enterprise wide. J-7 has brought in outside expertise, BearingPoint, to facilitate SRM/SMS program implementation and enhancement. DLA is working with OSD and the Strategic Sourcing Decision Board (SSDB) to drive strategic sourcing at the OSD level.

DLA is currently leading a Bearings Commodity Council effort initiated by OSD. In June 2006, the DLA Director of Maritime Supplier Operations signed a Supply Chain Alliance (SCA) charter with Timken bearings. The Maritime Supply Chain initiated this SCA in order to forge a partnership for improving responsiveness, improve administrative and production lead times, streamline contracts, and foster collaborative forecasting. Maritime also assigned a Supplier Relationship Manager (SRM) to this initiative. This SCA supports the recommendations of the OSD Supply Chain Capabilities Group (SCCG), which requested that the Services and DLA continue with efforts to coordinate and implement improvements in the bearings commodity. DLA manages approximately 90% of the National Stock Numbers, 75% of the Department-wide spend, and has significant expertise in item management and procurement across the bearings supply base. Additional SCAs are under discussion with Jamaica Bearings and SKF.

DLA and Air Force have completed a spend analysis and identified a set of NSNs that are a candidate for a corporate contract. The Supplier Relationship Manager (SRM) at DSCR is the DLA lead for tracking and implementing this initiative. DLA is also working with the Services, most notably Air Force, in partnering on strategic sourcing efforts; to date, there are military partnerships with 12 SSAs (See **Appendix B** for a listing of SSAs with military partnership indicator).

See **Appendix E** for a slide illustrating the DLA Commodity Council Integration with Air Force.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole sourced).

The SRM/SMS program largely deals with an undifferentiated market. The SMS population is derived by an analysis that targets items that are sales drivers, demand drivers, Not-Mission Capable System (NMCS) items, Warstopper items, and Readiness/Critical items (See **Appendix F** for a description of each category). Once the population is assembled, it contains a myriad of items that are undifferentiated. In FY06, the SMS population was 34.7% sole source and 65.3% competitive.

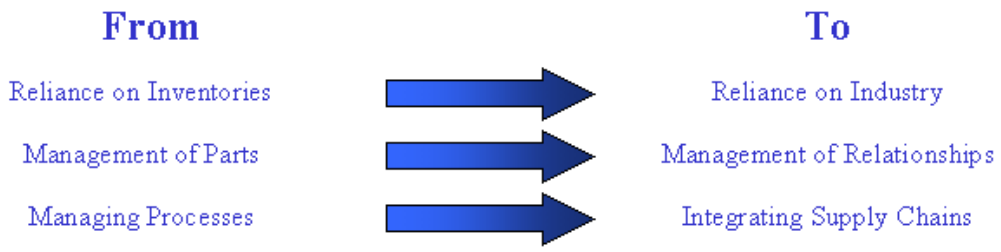
Describe what drives the requirement around this category.

See section II-a-ii above for a description of how the population is derived and the drivers of the market from which the NSNs are targeted.

How is the sourcing strategy today different from what you have done in the past?

In the past, DLA's relationship with suppliers was primarily a transactional, "one-at-a-time" relationship. However, by analyzing many successful commercial best practices, it was realized that there are significant advantages in maintaining a long-term partnering relationship with suppliers. For DLA to be successful in this shift to best business practices, it must shift from a manager of "supplies" to a manager of "suppliers". **Figure 1** below illustrates the key elements of DLA's shift to commercial practices and summarizes the transitioning that will be required.

Figure 1: *Key Elements of DLA's Shift to Best Business Practices*



Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?

One of DLA's 13 Transformation initiatives, DLA Strategic Goal IP2b is to "develop and deploy a comprehensive Supplier Relationship Management strategy by FY07 to integrate customer requirements into contractual and alliance relationships required of our supplier". That being said, the different components of the SRM program have a variety of quantifiable goals. The goals are outlined below:

- Supplier Relationship Management:
  - Conduct a DLA enterprise-wide risk assessment and SRM Strategy Session by FY07.
    - **STATUS:** Completed July 2006.
- Strategic Supplier Alliances:
  - Implement 24 by FY06.
    - **STATUS:** 28th SSA signed in FY05, goal exceeded.

- Strategic Arrangements:
  - Implement 12 by FY07.
  - Supply Chain Alliances: 13 in place at end of FY06.
  - Performance Based Logistics Agreements: 27 in place at end of FY06.
    - **STATUS:** Complete, goal exceeded.

- Strategic Material Sourcing:
  - Re-baseline the SMS population for FY07.
    - **STATUS:** Complete with a revised SMS population of approximately 303,000 NSNs.
  - Inventory Savings of $64M in FY06.
    - **STATUS:** Inventory Savings of $92.8 M in FY06. Goal exceeded.

What is the current status?

See above section for status.

When are your next steps and actions to be completed?

October 2006 - SMSG training

This training focuses on the new BSM Vendor Scorecard capability added for FY07. This tool captures metric reporting requirements from several supply chains and allows a vendor to be measured at an individual CAGE level or a consolidated group of CAGES known as a corporate entity.

October 2006 - March 2007

SRM next steps generated from the J-7 SRM Strategy Session in July 2006 have been distributed across the Agency to generate timelines for implementation. It is anticipated the timelines will vary greatly based on the internal DLA organization's capabilities and where they reside within the SRM Capabilities Maturity Model.

March 2007 - Annual spend analysis for identification of strategic partners.

Ongoing - Continued emphasis on long-term contracts to reduce the number of unique contracting actions and consolidating spend for item(s) and supplier(s) where possible and practical.

Ongoing - Integration of BRAC mandated DLR suppliers and procurement spend within existing DLA SRM and SMS programs to include adding DLRs to existing partnership agreements and LTCs.

Ongoing- Continue to identify candidates for strategic arrangements including SCAs and PBLs. There are currently 7 SCAs and 12 PBLs planned for FY07.

Ongoing - Continue with the Pathfinder effort to develop a Department-Wide approach to commodity management for those product classes which are common to one or more Service/Agencies, and develop a commodity strategy for the selected commodity, looking at Department requirements, opportunities, and market conditions.

What are the proposed dates for the final product (for example, a finalized plan and/or contract award date?)

The SMS program is a mature and ongoing program and consists of thousands of contracts. This process is repeated annually with a specific goal to reduce contract actions, consolidate spend and achieve program inventory savings.

Metrics* If data not available, please provide explanation. (Please collect all of the following data in a table format and then insert the table within the final Word document. Be sure to include a baseline measurement for each metric.)

Table 1: *Metrics Information in Table Format*

Total Spend Covered Within Initiative			**ACTUAL**
	FY06 Annual Demand Value		
		SMS Program Actual	$3.1 Billion
		FY05 Baseline	$3.3 Billion
Total Cost Avoidance			
	Inventory Savings		
		Cumulative	$247 Million
		FY06 to date	$57 Million
		FY06 Baseline	$185 Million
% Spend in Category Competed			
		FY06 Actual	65.3%
		FY06 Baseline	63.2%
Small Business Spend			
	FY06:	Spend:	$1.3 Billion
		FY06 Baseline	$1.5 Billion
		% of Small Business Eligible NSNs Awarded:	30.1%
		FY06 Baseline	42.2%

Total spend covered within initiative ($): See **Table 1**

Total cost avoidance ($, schedule, resources, and / or performance), e.g. reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance

See **Table 1**

Percent of spend in the category that was competed: See **Table 1**

Small business spend before and after initiative (% change and direction): See **Table 1**

What were the SBA goals?

For SMS Program Small Business performance, see Table **1** above.

Small Business Goals are not established separately for Strategic Sourcing activities. However, the Agency Small Business Goals are illustrated in **Figure 2** below. Historically, the SMS program small business awards have trended with overall DLA small business performance. During this fiscal year, implementation of a procurement tool was delayed in BSM that has historically been a key contributor to the small business contract awards. This tool should be on-line in early FY07 and it is anticipated that small business statistics for SMS in FY07 will again mirror overall Agency performance.

Table 2: *DLA Small Business Goals and performance through Q3 FY06*

Elements *Prime Contracting*	Target FY06	June Perf FY06
Small Business	40.7%	43.9%
HUBZone Small Business	2.4%	2.2%
*Small Disadvantaged Business	4.4%	4.8%
Women-Owned Small Business	4.7%	5.1%
Service-Disabled Veteran-Owned SB	0.4%	0.43%
*8(a) - Subset of SDB	1.21%	1.05%

Lessons Learned, including Limitations and Best Practices / Success Stories

What do you recommend future initiatives do to be successful?

Continue to solicit senior leadership visibility and program support. Without this support, other competing priorities can take precedence and siphon resources away from strategic sourcing initiatives. J-7 at DLA is the program sponsor and is active in many ways including:

- Receives monthly SMS performance briefings.
- Held a SRM strategy session that included an agency-wide SRM risk assessment for all parts of the DLA organization.
- Approved Strategic Supplier Alliance transition metrics that gauged performance as DLA migrated from the legacy environment to full BSM Enterprise Resource Program deployment.
- Presented and participated in the Senior Executive Procurement Round Table (SEPRT) with top industry partners, keeping them engaged and informed of DLA's direction and progress.
- Participated in the implementation of a Performance Based Agreement (PBA) with DCMA that establishes a framework for the coordination and alignment of resources in support of DLA.
- Spearheaded Joint Supplier Scorecard effort after the DCMA-led initiative stalled. Selected and defined metrics including the systems and data elements to be used in data collection.

What would you change?

One major change planned for FY07 is a continuing refinement of program performance metrics. DLA continues to move to a program scorecard approach using number of NSNs on contract, Annual Demand

Value, Annual Demand Frequency and adding Lead-times in FY07. The purpose is to more accurately incentivize the drivers of inventory savings while maximizing the opportunity to meaningful supplier relationships that can be leveraged to the benefit of the supplier, DLA and our customers.

Another new focus of the SRM program is the expansion of the initiative beyond Hardware Supply Chains. A SRM Strategy Session was held in FY06 that included all DLA organizations, and J-7 is currently working with each organization to identify the next steps that will make SRM a success enterprise-wide.

Can it be implemented and corrected? Yes.

If so, what is the timetable? Q1 FY07.

What is the appropriate time to execute the sourcing activity?

The SMS program is a mature and ongoing program and consists of thousands of contracts. This process is repeated annually with a specific goal to reduce contract actions, consolidate spend and achieve programmed inventory savings.

Appendices

Appendix A: The FY07 SMS population by category

Primary Driver	CountOfNIIN
SALES	62,756
DEMAND	122,608
NMCS	7,628
WARSTOPPER	3,221
READINESS	4,427
CRITICAL	534
Supply Chain Focus*	4,472
Addbacks*	98,290
Total	**303,936**

Appendix B: Listing of current SSAs by Fiscal Year

FY 99	FY 02	FY 03	FY 04	FY 05
*Honeywell**	Boeing	Avibank	Eaton	York
	*Pratt & Whitney**	Canadian Commercial Corporation	*BAE Systems (UDLP)**	Alcoa Fastening System
	*General Electric**	*Hamilton Sundstrand**	*AM General**	*GDLS**
	*Parker Hannifin**	Textron	Goodrich	Smiths Aerospace
	Northrop Grumman	*Sikorsky**	Rolls Royce	
	*Dresser Rand**		Aircraft Braking Systems	
	BAE Systems		Moog Inc.	
	*Lockheed Martin**		*Osh Kosh**	
			Raytheon	
			Warren Pump	

**Military Partnership with 12 SSAs*

Appendix C: Listing of current SCAs by Fiscal Year

FY 05	FY 06	*FY 07*
Derco	Cummins	*Wheeler Brothers**
CLARCOR	Armor Holdings	*Penn Detroit Diesel**
BTMC	Crane	*Caterpillar**
	Woodward Governor	*Badger Truck**
	Watec	*SKF Bearings**
	SAIC	*Jamaica Bearings**
	Kampi	*JGB Enterprises**
	NISH	
	Timken	
	Stewart & Stevenson	

Denotes planned SCA

Appendix D: Listing of current PBLs by Fiscal Year

Prior to FY05	FY05	FY06	FY07	FY08
21N	Common Ground Station	B-1	AV-8B HISS	Future Combat System
CIWS	EA-6B Hydraulics	C-130, KC-135, E-3 Landing Gear	Bridge Erection Boat	LCS
DDS	F/A-18 FIRST	Environmental Control Units	CASS (2006)	THAAD
J-STARS	F/A-18 FIRST Direct Sales	F-16 Falcon STAR	CSD	
J52	F404 S2C	Floodlights	F-15	
KAC	Insulation Material	H-46 Comp Phase 1	Firefinder	
S-3	KC-136	HMMWV Customer Pay	F-Series	
SDV	T55	KC-135 UDM	H-53 Phase 1	
SLQ 32		Sentinel	J52	
		TACSAT	LW155	
		Tactical Water Purification System	MK48/54 Torpedo	
		UH-60 Ovrhl	SPLS	

Denotes planned PBL

Appendix E: *Illustration of the DLA Commodity Council Integration*

DLA Commodity Council Integration

DLA's Aviation Supply & Demand Chain Manager

Commodity Councils

Accessories & Instruments (Tinker AFB)
Propulsion (Tinker AFB)
Landing Gear (Hill AFB)
Secondary Power Systems (Hill AFB)
Support Equipment (Robins AFB)
Aircraft Structural (Robins AFB)
Communications & Electronics (Robins AFB)

Hill AFB

Landing Gear

- **Small Business – AF prime vendor contract, 3,000 AF & 385 DLA consumables**
- **Aircraft Braking Systems – DLA contract, 355 DLA & 35 AF consumables**
- **Goodrich – DLA umbrella, adding 66 AF reparables**

Secondary Power Systems (Spirals)

- **Honeywell AF PBL, DLA drawdown effort**
- **Goodrich & Honeywell, DLA contract , adding 6 AF consumables**
- **Hamilton Sundstrand, AF PBL, DLA drawdown effort**

Tinker AFB

Accessories & Instruments

- **Honeywell – DLA contract, 3 AF reparables added & additional 1,041 under review**
- **B-1 Flight Controls – AF PBL, DLA drawdown effort**
- **Competitive Spiral – AF IDIQ, 16 AF reparables, DLA NSN review**

Propulsion

- **Pratt& Whitney – TF33 AF PBL, 234 AF consumables only**
- **Woodward & Governor – DLA contract, adding 35 AF consumables**
- **Parts Manufacturer Approval – Source approval, 102 DLA consumables under ESA analysis**
- **F-Series Engines – DLA PBL, 134 AF reparables, 10,144 DLA consumables**
- **Bearings (Timken) - DLA contract, 140 DLA NSN's**

Warner-Robins AFB

Support Equipment

- **Competitive Spiral – AF prime vendor, 8,000 consumables, DLA to participate later**

Aircraft Structural

- **Boeing – DLA contract, adding 93 AF reparables**
- **Northrup Grumman – AF contract, 235 DLA consumables**
- **Competitive Strategy – AF market basket, NSN analysis underway**
- **Lockheed Martin – DLA contract, adding 152 AF reparables**

Communications & Electronics

- **Chelton – AF contract, DLA to be included in 2nd phase**
- **Teledyne – AF contract, NSN analysis underway**
- **L3 – DLA contract, NSN analysis underway**

Appendix F: ***Description of SMS driver categories***

Sales Drivers: An analysis of the DLA Sales Drivers was conducted to determine which NSNs were strategically important to the business base of the Supply Chains based on the dollar value of sales. The reasoning underlying this Sales Analyses was the hypothesis that the Pareto Principle would apply to DLA items relative to sales. The Pareto Principle holds that in many populations, approximately 80% of occurrences are caused by approximately 20% of the items. It is generally held that by focusing on these "significant few", greater results can be obtained. For DLA, this 80/20 rule implied that 80% of sales revenue should be generated by 20% of the items.

Demand Drivers: To address concerns that the previous Sales Driver list had been too heavily weighted toward higher cost items, Pareto analysis was run on the NSNs' Annual Demand Frequency (ADF) and a new category of items was identified. In most cases the Pareto analysis added a significant number of items that wouldn't have been captured using a sales-only look. The goal was to identify NSNs with significant demand (workload for DLA) but low unit cost, which is attractive to the supplier community.

NMCS Analysis: Weapon systems that are coded NMCS are determined to be not mission capable until a requisitioned spare part is made available and the required maintenance action completed. The Service-specific coding within the Military Standard Requisitioning and Issues Procedures (MILSTRIP) requisition format was used to define as NMCS NSNs for this analysis.

The Warstopper List: This list of NSNs represents items identified in the population of DLA-managed War Reserve and Surge and Containment items. It was determined that many of these items do not have the requisite inventory on hand or access to production sources to support specific wartime scenarios. For this reason, these critical items were included in the SMS population if they had experienced at least one demand in the past two years, but lacked compliant contractual coverage. Compliance is defined as having a DLA-approved surge clause and a surge-quantity delivery schedule for these items spanning at least 180 days (six 30-day increments). Compliance determinations were made by querying the Industrial Base Management System's (IBMS) Surge Database, which houses J-7's Warstopper list for all Hardware and Troop Support items. The Warstopper list is a filtered, hierarchical NSN list based on War Reserve, ICIS Model, and JCS data.

Readiness/Critical Items: Readiness Items are Service-identified as: essential to the weapon system's operation; essential to personnel safety; or needed for legal, climatic, or other peculiar operational requirements. (Weapon System Indicator Codes F, L, T, G, M, W, H, P or X).

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E. USTRANSCOM

United States TRANSPORTATION COMMAND
Annual Report on Strategic Sourcing
Fiscal Year 2006

Executive Summary

The United States Transportation Command (USTRANSCOM) is DoD's single manager for transportation and the Distribution Process Owner (DPO) for DoD as designated by the Office of the Secretary of Defense. USTRANSCOM is effectively engaged in strategic sourcing efforts for DoD's transportation, distribution, and services supporting transportation needs through its three transportation component commands (TCCs) – Air Mobility Command (AMC), Military Sealift Command (MSC), and Surface Deployment and Distribution Command (SDDC) – providing global air, sea, and land transportation services in support of national security objectives. Two ongoing strategic sourcing initiatives currently within USTRANSCOM's acquisition authority are the Defense Transportation Coordination Initiative (DTCI) and the International Heavyweight Express (IHX) Pilot. As a result of the Base Realignment and Closure (BRAC), several common-use air, sea, and surface transportation initiatives will be procured and administered under USTRANSCOM's acquisition authority in CY 07 and in the future will be reported to OSD. The following are some of the major programs that are strategically sourced with respective estimated and annual spends: International Airlift Services (Civil Reserve Air Fleet Program) $2.5B+; Universal Services Contract, $800M; Domestic Services, $200M; and Tailored Transportation Contracts; $800M.

USTRANSCOM's focus for the past year has been on BRAC consolidation of our component's acquisition functions. These consolidation efforts will maximize effectiveness, efficiencies, and savings throughout the DoD and will provide innovative intermodal transportation solutions for our customers. As we move forward with BRAC initiatives and consolidation, more strategic sourcing opportunities will be forthcoming.

Overview of Report

This report will provide requested available data on the two USTRANSCOM sourcing efforts underway, DTCI and IHX discussed in Section II of this report.

USTRANSCOM participated in one strategic sourcing activity supporting the GSA Federal Strategic Sourcing Initiative Express/Ground Domestic Delivery Services (exGDDS) as a team member. On Oct 17, 2006, ADUSD (Transportation Policy) concurred with and passed USTRANSCOM's response to GSA declining their offer to join the exGDDS pilot.

What are the Strategic Sourcing goals, i.e. cost, schedule, resources, and / or performance?

As USTRANSCOM consolidates its strategic sourcing efforts for airlift, sealift, and surface transportation services, acquired under the programs identified above, the leveraging of DoD's transportation requirements will enable USTRANSCOM to service customer needs more effectively and efficiently while obtaining optimum pricing and performance. The reorganization of USTRANSCOM component acquisition functions into a streamlined USTRANSCOM acquisition office will consolidate current redundant functional elements at the Component Commands, present one face to industry, and provide advantages that will meet potential USTRANSCOM customer concerns. We anticipate centralized

management of transportation acquisitions will streamline the acquisition process and provide for truly multi-modal, mode neutral acquisition solutions while reducing acquisition cycle times and overhead costs resulting in improved service to DoD customers.

USTRANSCOM goals are to educate the acquisition workforce, maximize use of strategic sourcing in all applicable acquisition programs and improve performance. We will accomplish this by 1) Ensuring key strategic sourcing acquisition personnel have completed a Defense Acquisition University strategic sourcing course. 2) Explore strategic sourcing opportunities within USTRANSCOM. Over 50 programs are coming to USTRANSCOM as a result of the BRAC consolidation. We plan on reviewing 100% of these programs for strategic sourcing applicability. 3) Improve performance by monitoring and complying with each strategic sourcing initiative metrics.

> **Metric:** Total number of current Strategic Sourcing activities, Strategic Sourcing initiatives, and / or commodity councils – 1 – activity 2 initiatives
>
> **Metric:** Total number of individuals trained in strategic sourcing within the year – To date we have one employee trained in strategic sourcing. We are currently identifying training resources, on-line, in-house, and classroom opportunities.

Do you have a communications plan? If so, what is it? We are developing an internal communication plan to ensure our acquisition personnel are aware of the need to move towards strategic sourcing and that our goals for educating the workforce are met.

Other information that the Department, Congress, or OMB should know and is not addressed. None at this time

Initiative 1: Purpose / Strategy - The Defense Transportation Coordination Initiative (DTCI)

What is the scope of the project and the desired outcome / benefits?

The Defense Transportation Coordination Initiative (DTCI) is one effort that has been identified to help fulfill the DPO's key responsibilities: (1) Improve the overall efficiency and interoperability of distribution-related activities – deployment, sustainment, and deployment support during peace and war; and (2) Serve as the single entity to direct and supervise execution of the Strategic Distribution System. Specifically, it is envisioned that DTCI will improve the reliability, predictability, and efficiency of DoD materiel moving within CONUS through a long-term partnership with a world-class coordinator of transportation management services. Currently, there are over 600 DoD sites that work independently to arrange for second-destination transportation services. These sites do not act as an enterprise, nor do they optimize their transportation efforts. There is no consistent predictability, and there is only minimal visibility and enterprise situational awareness. As such, DoD is not leveraging its enterprise position to support our warfighters. Upon implementation of DTCI, DoD will enter into a partnership to begin collaborating, managing, integrating, and leveraging its enterprise to obtain economies of scale for quality and efficiency improvements. This in turn will provide for better predictability for warfighting effectiveness at a better value for the tax payer. Under the DTCI Solicitation issued on 22 Jun 06, the DTCI coordinator shall perform transportation coordination services in a manner that will improve the reliability, predictability, and efficiency of Department of Defense (DoD) materiel moving within the Continental United States (CONUS).

Proposals in response to the Solicitation were received on 18 Aug 06 and source selection activities are ongoing. Award will be made to the offeror whose proposal represents the best value given the

evaluation criteria set forth in the solicitation. The period of performance consists of a 3-year base period, 2 one-year option periods, and 2 award term option years for a potential 7-year contract life.

Who, if anyone, are you working with on driving the initiative? The DTCI logistics transformation concept was initiated by the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD AT&L/TP) in the spring of 2004. DTCI is coordinating the initiative with its customers including Defense Logistics Agency (DLA) (DDJC-TC, Information Operations, DORRA Procurement Operations, J3, Distribution and Reutilization Policy, Contracting Operations), the Army (AMSTA-LC-LEAP, HQDA, ODCS G-4), the Navy (NOLSC N431A, USTRANSCOM Naval Office Liaison), the Air Force (49 LRS/LGRT, AMC Air Transportation Division), the Marine Corps (HQ USMC-LPD Integrated Distribution Team, MAGTFTC), and DDC (J3, J4, SDDC:SDG-3-GD-BP, G3, Logistics Operations). USD AT&L/TP contracted with Logistics Management Institute (LMI) who subcontracted with Genco to support DTCI with their expertise, especially with business case economic analysis.

Describe the nature of the "market" (undifferentiated, highly competitive, or sole sourced). The commercial market for 3PL services is highly competitive. The DTCI Project Management Office (PMO) at USTRANSCOM has conducted extensive market research in support of this initiative. Numerous companies, both large and small, have expressed an interest in this acquisition by either responding to the RFI or participating in one-on-one discussions. We believe there will be significant competition at the sub and prime contractor level.

Describe what drives the requirement around this category. Based on market research accomplished, numerous companies have been identified that provide transportation management services in the commercial marketplace. (Reference Armstrong Associates, Inc's *Who's Who in Logistics* listing of 3PLs; and *Inbound Logistics'* listing of the top 100 3PL providers). The following is a small sampling of some of the better-known corporations/companies that obtain transportation management services: Campbell's, 3M, Coca-Cola, John Deere, Toys R Us, Mattel, General Mills, Ford Motor Company, Target, Nike, Proctor and Gamble, etc.

How is the sourcing strategy today different from what you have done in the past? DTCI is a transportation re-engineering initiative. This is the first contract for this type of transportation management services. In the current DoD CONUS shipping practice, shipments involve little or no centralized planning or load coordination, and shippers and their servicing transportation offices (TOs) make transportation decisions independently without awareness of what other nearby commercial or government shippers may be sending to similar destinations. TOs do not leverage consolidation possibilities at a single location, rather choosing to process multiple shipments as individual less-than-truckload (LTL) shipments. DoD shipment historical data suggests that a significant number of shipments are given to carriers with higher freight rates than the average available DoD rates for a given traffic lane. Currently, there are over 600 DoD sites that work independently to arrange for second-destination transportation services. These sites do not act as an enterprise, nor do they optimize their transportation efforts. There is no consistent predictability, and there is only minimal visibility and enterprise situational awareness. Freight is currently moved by a combination of FAR and non-FAR commercial voluntary tender agreements using customary bills of lading. The government currently awards business to carriers on the basis of a single freight movement request to move an item between specified origin and destination points without regard for lowering costs by consolidating shipments, offering compatible backhaul moves, or other shipment planning efficiency techniques.

Implementation

What is the schedule for implementation?

The DTCI will be implemented through a spiral phased approach. Spiral I, the only spiral to be implemented under this contract will include three phases. Phase I will include 18 Defense Distribution Centers (DDCs) and will be completed within 22 months after contract award. Phase II will include selected DoD shippers within close proximity of the DDCs and selected aerial ports and will be completed within 21 months after contract award. Phase III will include additional selected Service shipper locations and will be completed within 25 months after contract award.

What and when are the goals and objectives to be achieved?

It is the goal of the government to: improve operational effectiveness; support strong small business participation; improve customer confidence; reduce cycle times (defined as time from request for movement to delivery); increase efficiencies; develop a partnership to integrate commercial best practices; enable process improvements; achieve cost savings; integrate seamlessly with the DoD Strategic Distribution System; and protect operational capability like a DoD critical infrastructure asset. To improve operational effectiveness and reduce cycle times, the following performance thresholds are taken from the DTCI PWS. In addition, established cost savings goals/measures are identified below the metrics table.

Performance Objective	PWS Para	Performance Threshold
On-Time Pickup	1.3.9	98% on time pickup The percentage of shipments (individual TCN) picked up on time (defined as within 6 operational hours of the request unless a specific time is requested by the shipper) or as promised in the case of a special request or unique move. For scheduled trucks, pickup times shall be specifically agreed to during site implementation and will vary by site.
On-Time Delivery	1.3.16	98% on time delivery The percentage of shipments (individual TCNs) delivered by the Mandatory Delivery Date (MDD) required by the shippers request unless otherwise specified (for example: scheduled truck service with specified delivery window or expedited service outside of normal delivery cycle.)
Loss and Damage Free Shipments	1.3.11	98% of shipments shall be damage free
Process Loss and Damage Claims in a timely manner	1.4.5.23.7	99% of all claims closed within 120 days. Remaining 1% shall be closed within 180 days.
IT Systems Available for use	1.4.6.10	99% system availability (minus approved scheduled downtime)

Achieving and/or surpassing the above performance thresholds will in turn increase customer satisfaction and confidence. SB goals are already specifically listed in the metrics table below.

What is the current status? Proposals have been received, and DTCI is currently in the source selection process.

When are your next steps and actions to be completed? The DTCI PMO is continuing the source selection process, which will lead to contract award.

What are the proposed dates for the final product (for example, a finalized plan and / or contract award date)? At this time, the contract award date is anticipated Q3 FY07

Metrics

Metric	Baseline	FY 2007	Explanation
Total Spend covered within this initiative	According to the RFP, the estimated transportation spend after all sites are implemented (beginning in Year 3 of the DTCI contract) is approximately $250 Million per year.		This transportation spend figure is derived from an analysis of 3 years of historical shipment data from PowerTrack.
Total cost avoidance ($, schedule, resources, and/or performance), e.g. reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance			* See narrative explanation
Percent of spend in the category that was competed			Spend information will be available at a later date.
Small business spend before and after initiative (% change and direction)	Records reveal that approximately 15% of DoD's annual CONUS freight payments are made to small business carriers, which mostly operate locally and regionally. Data on how much small business subcontracted out by freight brokers and forwarders used by DoD are not available. PMO analysis of PowerTrack data shows that 59 percent of freight movements were under non-FAR contracts. Under these public tenders, carriers do not have to certify whether they are a small business according to the NAICS standards. As a result, determining whether small businesses have made many of DoD's transportation movements under non-FAR contracts is difficult.		Since the DTCI contract has not been completed yet, this data is not available at this time.
What were the SBA goals?	The target subcontracting goals are stated in the DTCI RFP as follows: All subcontract dollars awarded go to small business in Year 1 20%; 23% in Year 2 of the Base Period; 25% in each year of Year 3 of the Base Period through Year 7 of contract performance. 1.10% of all subcontract dollars awarded go to HUBZone businesses in Year 1 of the Base Period; 1.20% in Year 2 of the Base Period; 1.30% in Year 3 of the Base Period; 1.40% in Year 4; 1.50% in Option Year 5 through 7. 1.50% of all subcontract dollars awarded to Service-disabled-veteran-owned businesses in Year 1; 2.00% in Year 2; 2.50% in Year 3; 3.00% in Year 4 through 7. 5.40% of all subcontract dollars awarded go to small-disadvantaged business in Year 1; 5.90% in Year 2; 6.40% in Year 3; 7.00% in Year 4; 7.60% in Year 5 through 7. 1.60% of all subcontract dollars awarded go to Woman-owned small business in Year 1; 1.80% in Year 2; 1.90% in Year 3; 2.10% in Year 4; 2.30% in Year 5 through 7. The contractor shall make a good faith effort to utilize all categories of small business subcontractors in an effort to meet or exceed the goals identified above.		

Explanation

Upon award, the Government will share historical baseline cost data with the contractor. The Government's established goal for costs savings under this contract is 19.1% at the end of the third year of the base period of performance. The Government expects the contractor to show significant annual progress toward that goal. At the end of Year 4, if the first option period is exercised, and throughout the remainder of the contract performance, the Government's established goal for cost savings under this contract is 23.2%. The Government expects the contractor to continue to seek additional savings opportunities and communicate these efforts with the Government. The baseline will be calculated as:

- Baseline cost = Total baseline direct freight costs/total baseline weight/total baseline miles
- Actual costs = (Actual direct freight costs + management services)/actual weight/actual miles
- Savings = (Baseline cost-Actual cost)/Baseline cost

The savings will be calculated for the implemented locations. Total freight costs exclude accessorials and fuel surcharges. The contractor will report these actual costs and savings percentages on a semi-annual basis at least 10 days before the award fee evaluation period on an aggregate and per location basis.

Upon notification of a shipment request and after shipment pick-up, the contractor shall utilize their optimization expertise and tool(s) to consolidate freight when possible, both geographically and within the MDD timeframes given. Such consolidation shall result in overall optimization of government freight shipments.

Lessons Learned, including Limitations and Best Practices / Success Stories

Upon completion of this DTCI contract, a Lessons Learned document will be prepared

Initiative 2 - International Heavyweight Express (IHX)

Purpose/Strategy

What is the scope of the project and the desired outcome/benefits?

The purpose of this contract is a test for international commercial heavyweight express service for the Department of Defense (DOD). Express service includes time-definite, door-to-door pick-up and delivery, transportation, in-transit visibility (ITV), Power Track participation, and expedited customs processing and clearance of express large packages weighing from 151 lbs up to and including 300 lbs. To determine the outcome/benefit, USTRANSCOM is working closely with the Services to provide quality data on cost, timeliness, reliability and, most importantly, tangible increases in warfighter support (i.e., improved readiness, reduction in customer wait times for time sensitive cargo, reduction in inventory levels, etc). Acquisition planning for a follow-on acquisition is currently underway. The Worldwide Express solicitation (WWX) for FY08 encompasses

1 – 150 pound international express shipments for the Department of Defense (DOD) as well as other non-DOD agencies interested in becoming mandatory users of this contract. As we develop the acquisition strategy for this acquisition, language is being written to add the IHX (151-300 pound) requirement upon successful completion of the test.

Who, if anyone, are you working with on driving the initiative?

USTRANSCOM is working with the Senior Logisticians from the Army, Air Force, Marines, and Navy, to include DLA, to acquire data which is accurate and provided timely.

Describe the nature of the market (undifferentiated, highly competitive, or sole source).

This is a highly competitive market and contract awards were made to six DoD approved CRAF carriers submitting offers that proved technical capability, good past performance, and fair and reasonable pricing.

Describe what drives the requirement around this category?

A competitive marketplace allowed for multiple awards giving the customers greater flexibility to make best value decisions on any given day depending on price and service.

How is the sourcing strategy today different from what you have done in the past?

Presently, the Services are moving their cargo either through the channel system, tenders, or completely outside the established organic or commercial vehicles without USTRANSCOM visibility.

Implementation

What is the schedule for implementation? What and when are the goals and objectives to be achieved?
The period of performance is 1 December 2006 through 30 September 2007. It is the goal of this test to obtain faster and more reliable service while supporting war readiness (see metrics below). Anticipate these goals can be achieved by 30 September 2007. However, if additional data is required to further support the test, the performance period may be extended an additional six months.

What is the current status?

Six contracts were awarded on 14 November 2006 with a performance start of 1 December 2006.

When are your next steps and actions to be completed?

Data will start being collected to begin monthly analysis on actual results of the testing.

What are the proposed dates for the final product?

The performance test period is between 10 to 16 months. A final decision will be made once sufficient data has been received to either continue the program under the WWX contract or revert back to movement in the DOD system.

Metrics

Metric	Baseline	FY 2007	Explanation
Total Spend covered within this initiative	$37,000,000 estimated		
Total cost avoidance ($, schedule, resources, and/or performance), e.g. reductions in the prices of goods and services, reductions in the cost of doing business, or improvements in performance	Do not anticipate a significant cost savings. Anticipate improved performance reliability from 70% to 90% into the area of operation. Reduced time definite delivery days from 8 – 10 day deliveries to 4 – 6 day deliveries.		
Percent of spend in the category that was competed	$37,000,000 estimated. The transportation management offices are competing these requirement daily. Best value decisions are being made based on price and service.		
Small business spend before and after initiative (% change and direction)	The cargo being transported under these contracts is a small portion of the much larger channel requirements procured from Civil Reserve Air Fleet (CRAF) contractors. Small business goals identified are those associated with the system whole and not specific to this cargo.		
What were the SBA goals?	The service being provided is a small portion of the contractors daily commercial scheduled operations. Three of the six contracts were awarded to small businesses. Anticipate 10% of the transportation requirements will be shipped with a small business. Large businesses awarded the contracts identified the following goals, consistent with their commercial business. Small business 13%, HUB Zone .02%, SDB 1.6%, WOSB 1.8%, VOSB .04%, and Service-Disabled Veteran-Owned Small Business .005%.		

If data is not available, please provide an explanation. (Be sure to include a baseline measurement for each metric.)

F. DoD Chief Information Officer

DoD CIO
Annual Report on Strategic Sourcing
Fiscal Year 2006

Executive Summary

***Overview*:** This report contains information about the Department of Defense Enterprise Software Initiative (DoD ESI) Project, which operates under the purview of the DoD ESI Steering Group, led by the Deputy Chief Information Officer (CIO), Department of Defense and by the Department of the Navy CIO.

Goals: The DoD ESI is a joint project designed to implement a software enterprise management process within DoD. By pooling commercial software requirements and presenting a single negotiating position to leading software vendors, ESI also provides pricing and "terms & conditions" not otherwise available to individual Services and Agencies. DoD ESI can use the Defense Working Capital Fund (DWCF) to provide "up-front money" for initial wholesale software buys. This funding process assures maximum leverage of DoD's combined buying power, producing large software discounts.

Component Metrics: The DoD CIO manages the DoD ESI as its sole initiative under the DoD Strategic Sourcing Board of Directors.

Training Metrics: Four new individuals were trained in DoD ESI methodologies during FY06. An introductory/explanatory briefing has been prepared, and is presented at appropriate major Defense IT and procurement fora. The entire DoD ESI Team is comprised of approximately 45 individuals, distributed throughout the major Components.

Communications Plan: The DoD ESI Project does have an updated and operational communications & outreach plan.

Initiative Level Information

Purpose / Strategy

Scope and Desired Outcomes: DoD ESI's scope is the entire Department of Defense, with participation allowed for and encouraged by the U.S. Intelligence Community, the US Coast Guard, NATO, and authorized defense contractors. Through the regular exchange of actionable information about commercial software licensing practices and IT systems integration, the DoD ESI Team is able to negotiate with major vendors "on a level playing field" for enterprise-wide agreements. Vendors recognize that the DoD ESI represents a single, unified customer - with considerable buying power – and offer more advantageous pricing, terms and conditions.

Collaboration: The DoD ESI project is primarily driven by the Defense CIO community, with major interest and involvement from acquisition and procurement professionals in OSD staff, and the major DoD Components (Army, Navy, Air Force, DIA, DLA, etc…). Applicable Defense Federal Acquisition Regulations Supplement changes and interpretations are worked with the office of the Director of Defense Procurement, and major Federal Acquisition Regulation issues are discussed directly with senior GSA and OMB officials. The DoD ESI Team regularly interacts with the Enterprise Systems Group (under the

DoD Business Transformation Agency) on matters pertaining to use of Systems Integrators for large-scale commercial software implementations and licensing of ERP software applications. On Information Assurance-related matters, the DoD ESI Team works closely with the DoD Enterprise-Wide IA & CND Solutions Steering Group (ESSG), as well as the Defense-Wide Information Assurance Program (DIAP). When use of Defense Working Capital Funds is deemed appropriate, DoD ESI business case(s) are presented to a DoD Component manager; complete with a repayment plan. Close working relations are maintained with the GSA SmartBUY Program Office, to facilitate DoD ESI's hosting of SmartBUY agreements ("co-branding").

Nature of the market: The "market" for DoD ESI's products and services is highly competitive. Government buyers have many other potential sources of supply, including straight GSA FSS, GWACs, and competitive or sole-sourced independent contracts. On the commercial side of the equation, there is an ongoing trend towards mergers and acquisitions, with the larger IT companies buying smaller ones whose products and/or services can fill perceived gaps in the larger company's portfolio.

Requirements Drivers: Requirements are driven by the current state of commercial software and systems integration services, and the market's preference (as expressed by past purchases) for particular technologies, brands & vendors. The imperative to embrace Net-Centricity is driving DoD programs' needs for products and services that can help deliver integrated solutions within the applicable Service Oriented Architecture. Data security and integrity are important issues in DoD, and IT products and services that can help ameliorate anti-virus, data-at-rest, and network operations security concerns are highly desired.

Differences from Past Approaches: The DoD ESI project was begun in 1998, and continues to grow and evolve to meet the changing needs of its market. For instance, the project began operations with a "product category" frame-of-reference, but by 2002 was forced to confront the realities of the market-place by shifting to a strategic vendor management" viewpoint. Prior to 1998, DoD commercial software buyers often operated in a vacuum of information about how similar-sized procurements worked; even for very large program specific buys. Since the advent of DoD ESI, IT buyers think and act more with an enterprise-wide frame of reference, and look to the DoD ESI for information on best practices in commercial IT acquisition.

Implementation

Current Status*:* The DoD ESI Project is currently operational.

Next Steps and Actions: *Some* major near-term objectives include: establishment of the "Change Management" and "Software Escrow Services" categories; implementation of a DoD Software Asset Management framework; addition of data-at-rest software agreements; and conversion of three additional SmartBUY vehicles into "co-branded" agreements administered by DoD on behalf of GSA SmartBUY.

Proposed Dates for Final Product: Individual ESI agreements are proposed, worked, and finalized on a concurrent "rolling" schedule. The details covering any individual agreement-in-progress are "Acquisition Sensitive".

Metrics

Total Spend: DoD ESI spend for FY06 was $693M

Total Cost Avoidance*:* Total cumulative cost avoidance since inception of the DoD ESI Project is $2.5B.

Competition: Approximately 85% of the total spend for FY06 was competed.

Small Business Participation: Small Business spend for FY06 was $340M

Lessons Learned

Recommendations: Start with something urgent, but small enough to be "doable", and expand from that initial success onto more complex and difficult objectives. Allow for, even plan, on early setbacks - be satisfied with an "80% solution". Minimize formality with regard to charter, process flows, and metrics - focus on producing an initial accomplishment quickly; not on documentation. Plan early for an active and ongoing Communication and Outreach program. Keep up with applicable regulations and policies, and proactively reach out to ensure early awareness of changes that can have major (and sometimes unintended) consequences. Develop and/or maintain a listing of "best practices", and follow them! Here are some of the DoD ESI's best practices:

- Manage and track software as an asset.
- Identify high payback targets and focus your energy on those opportunities.
- Assign responsibility to negotiate enterprise software agreements only to offices that have demonstrated specialized knowledge and expertise.
- Keep up with evolving standards, products, and delivery methods.
- Convince industry that the deal is real and that you control the buyers and the number of contracts.
- Establish a partner relationship with the supplier.
- Determine if up-front funding is necessary or will significantly improve discounts.
- Develop both top-down and bottom-up incentives to control and ensure use of the enterprise agreements.
- Identify and remove impediments to use of enterprise software agreements.
- Benchmark, benchmark, benchmark.

Execution Timeline*:* An IT project like the DoD ESI takes a year or two to initiate (depending on Agency size), and must be maintained as an ongoing concern if it is to have significant impact. Heavy CIO commitment and active involvement is a must, as the CIO has a unique cross-Component charter to initiate change. IT and Software Asset Management is a long-term process in any sizeable organization, and active cooperation is required from the contracting, requirements, and network management organizations to have any chance at success.