Strategic Sourcing

Insights from Early Marine Corps Commodity Teams

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A quick review of literature on strategic sourcing (as the Office of Management and Budget (OMB) dubbed the information-based enterprise-wide procurement approach) will yield a collection of truisms, the predictable responses to which are "We're already doing that where it's cost effective," or "We need more resources to do more of it."

(In this article, strategic sourcing refers to the May 2005 enterprise-wide strategic approach to procurement explained below. The Navy has also used the term strategic sourcing to refer to OMB Circular A-76 competitions where government labor formally competes for ongoing work against private contractors as championed in the Navy by Code N124.)

In March 2005, the U.S. Marine Corps (USMC) elected to use what was to become OMB's strategic sourcing as the commodity team (CT) leg of a broader strategic purchasing initiative. While stealing good ideas (with appropriate attribution) from others, we consciously developed our Marine Corps commodity team effort to be lean and fast. In the process, we uncovered some hidden lessons learned that seem worth sharing.

OMB Mandates Strategic Sourcing Plan

In a May 20, 2005, OMB memorandum, all federal agencies were directed to develop an agency-wide strategic sourcing plan no later than Oct. 1 of that year, and to provide annual strategic sourcing reports to the Office of Federal Procurement Policy. The strategic sourcing plans needed to address governance, goals (including socio-economic goals), performance measures, and communication and training strategies.

Fortunately, the Department of Defense was already well under way on the strategic sourcing voyage when the OMB memorandum was released. A Defense-Wide Strategic Sourcing Concept of Operations (DWSS CONOPS) had been released in January 2005, following DWSS prototype efforts in 2004. DoD already had a well-linked informal strategic sourcing community of practice. A joint-Service meeting to identify unique strategic sourcing skills had been held in early May 2005, before the OMB requirement memorandum.

The Marine Corps exploration of OMB-style strategic sourcing began in Spring 2004, following attendance by Dave Clifton (director, Marine Corps Business Enterprise Office (HQMC/LR)) at a RAND Corporation briefing on the topic. Clifton promptly directed his business engineering team (BET), a small group of industrial engineers from the Naval Facilities Engineering Command, to explore the applicability of strategic sourcing and its CT approach to the Marine Corps. Initial BET review of current literature and an extensive RAND literature review caused the BET to con-

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cur with HQMC/LR that the CT approach was well worth exploring.

In September 2004, HQMC/LR retained RAND to perform a high-level spend analysis of fiscal years 2003 and 2004 Marine Corps contract data. In the same month, representatives of Headquarters Marine Corps Contracting, the Department of the Navy, DoD Defense Procurement and Acquisition Policy, and HQ Marine Corps Business Enterprise Office worked together to acquire an advanced copy of the DWSS CONOPS. The BET began condensing the 50-page DWSS CONOPS into a lean 6½-page crib sheet incorporating the DWSS CONOPS by reference and specifying applicable Marine Corps inputs, outputs, and deliverables.

While waiting for a planned end-of-December-2004 arrival of the initial RAND analysis, HQMC/LR sent one of the BET engineers through the October 2004 Air Force Materiel Command commodity council training. This 4½-day class provided an applied approach to CTs within the purchasing and supply chain management transformation of AFMC. The class provided the Marine Corps excellent content, as well as numerous contacts within the AFMC CT community of practice.

Communication within the community of practice was further fostered by a series of public-sector strategic sourcing roundtable sessions that were hosted by Censeo Consulting Group, a Small Business Administration 8(a)-certified firm. These sessions provided a forum for DoD and non-DoD representatives to discuss successes, lessons learned, and practical issues related to strategic sourcing.

In early 2005, a strategic purchasing initiative (SPI) IPT had evaluated the spend analysis from RAND and concluded that two CTs should be chartered. The first CT would address professional service and the second would address information technology (IT). The IPT settled on a two-tiered approach for the Marine Corps. Tier I would cover Marine Corps CTs while Tier II would cover Marine Corps participation in CTs led by others. The SPI IPT recommended a cyclic seven-step USMC process that was tailored to Marine Corps culture and our need to capture savings for reprogramming in Program Objective Memorandum (POM) 08. By design, the seven-step process was compatible with the linear five-step DWSS CONOPS CT process as well as the cyclic Air Force eight-step CT process.

Initial Marine Corps Approach to Commodity Teams

The need to support our deployed Marines is felt at a visceral level within the Marine Corps community. We tailor our approach to Marine Corps culture and draw from operational warfighting habits. Marines thrive on fast tempo and rapid decisions with adequate information (the proverbial 70 percent solution). Marine Corps Doctrinal Publication 6 notes, "We focus on the value and timeliness of information rather than the amount, and on getting that information to the right people in the right form."

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We made our approach consciously compatible with the DWSS CONOPS for ease of transition if a Marine Corps CT needed to transition into a joint CT. Fortunately, achieving compatibility was straightforward. The DWSS five-step process, the USAF eight-step process, and the seven-step Marine Corps process simply sort the same basic process into pieces that are convenient for their primary audiences.

Each process had a step that clearly recognized the need to acquire a profound understanding of the "requirement" and a step that recognized an absolute critical need to develop an equally profound understanding of the market that supplies the requirement. This understanding of the market and what drives cost must be from the perspective of the supplier rather than from the perspective of the buyer. Comparing the processes, one sees that the strategy development, execution, and ongoing management steps simply vary to match the structure of the organization practicing strategic sourcing.

The Marine Corps is smaller than the Air Force, so our approach to our data was different. For the Air Force, RAND performed a spend analysis and sorted the data by four-character PSC (Product Service Code) or four-digit FSC (Federal Stock Code). The Marine Corps had RAND roll up the data that were originally sorted by four-character PSC/FSC into summaries based on the first two characters of the PSC/FSC. This two-character roll up produced over 100 groupings of products and services that we were buying. We sorted through the data and developed a straw man of about a dozen consolidated groups. Then we created a pareto chart of the groups based on contract dollar volume and another based on contract action volume. This led to a few large groups that stood out on both pareto charts.

In late March 2005, the SPI IPT proposed launching two CTs: a Professional Services CT and an IT CT. The SPI IPT also recommended retaining Censeo Consulting Group, who had recently facilitated a successful Medical Services Commodity Council for DoD. The SPI IPT expected to learn the tricks of running a CT from the firm and had a long-range goal of eventually developing CT facilitation self-sufficiency. The Executive Steering Group approved both CTs and the retaining of Censeo. The ESG also added a Maintenance of Equipment CT.

Turning Point

In the process of retaining Censeo, HQMC/LR and the SPI IPT faced a crucial decision: Did we want to use Censeo primarily as a technician to help the CTs drive through our seven-step process as originally envisioned, or did we want to use them as the heavy lifter charged with assuring the CTs achieved results? The question was critical, as the CTs being launched absolutely had to produce results that would be useable for POM 08 input in November 2005. We were faced with a decision on whether to be really performance-based and bet the farm, or be cautious and prescriptive.

As the decision deadline approached, we allowed Censeo to re-evaluate fiscal years 2003 and 2004 data. Censeo then took it a step further and added their own criteria related to the probability of rapid success, used their own protocols to group PSC/FSC data, and presented their results. This produced a similar result to those produced in-house and by RAND. Next, Censeo added Marine Corps-specific criteria. Support to the operating forces was a very strong criterion for Marines. This was subsequently factored into an "opportunity assessment" and yielded a different picture.

Before the opportunity assessment, we expected to launch three concurrent CTs (listed in order of anticipated success: Professional Service, Maintenance of Equipment, and IT). The opportunity assessment recommended postponing the first two and moving IT to the top as the first priority. And it recommended adding two additional Quick Hit (QH) CTs for two apparently "relatively easy" commodities: Clothing and Metals.

It was now decision time and the stakes were high. There was really not enough time to reconvene the ESG if we were to deliver results by November. Should we stay prescriptive and execute as briefed? Should we bet the farm on Censeo and go performance-based with two QH CTs that had not been seriously mentioned to the ESG? We opted to go performance based.

Text Book Lessons Learned

The biggest textbook lesson for CTs is to look at ourselves as the market sees us. Too often we fail to look into the

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market or if we do, we look into it from our own buyer's perspective. CTs need to look at the market from the market's perspective and learn to see the market as it sees itself. Once a CT understands what drives the costs from the market perspective, then it can look to see if an unimportant requirement is driving up costs.

Developing a profound understanding of the requirement is the knowledge that complements a profound understanding of the market. Too often a CT will settle for an improved forecast or enterprise-wide forecast as the key to a more effective strategy. It is easy to overlook the end-to-end aspect of understanding the requirement. Did a non-industry-standard requirement slip into our requirement a few levels up stream? Do we really have an odd constraint downstream or upstream? If the requirements generator knew how costly buying eggs in boxes of 10 was, would they gladly convert to eggs by the dozen?

Marine Corps Insights

Critical mass is essential to a successful CT. Critical mass is demonstrated by speed, persistence, and overcoming skeptical resistance that seems inherent at first exposure to strategic sourcing. Critical mass was provided by Censeo for the QH CTs. The larger IT CT achieved critical mass via two primary-duty government employees plus a few collateral-duty CT members, and Censeo. The Marine Corps achieved critical mass built around an 8(a) contractor nucleus, while the Air Force achieved CT critical mass by setting up a CT core of a dozen full-time billets. For both the Air Force and the Marine Corps, critical mass was achieved with a lean team compared to volumes of data and culture of the stakeholders.

While we were launching our CTs, we were also observing a non-Air Force agency's CT that launched about three months before we did. The other agency tried to faithfully follow the DWSS CONOPS and had good participation and schedule discipline. Unfortunately, however, it lacked critical mass and missed the importance of understanding the market with the result that it devolved into a simple consolidation and data collection solution.

Skepticism is to be expected and must be overcome. Obviously, any program team must understand the requirement and the market. CTs work by helping good program people working a good process address the friction points, previously tabled improvements, and superstitions. Program teams often don't have time to address these tabled opportunities unless they have an outsider tenaciously raising important "naïve" questions.

An end-to-end view is important. Understanding not only the requirement but also what drives it is essential, as is understanding the total cost of ownership. The costs may be in terms of downtime rather than financial cost. This end-to-end view of the requirement helps the CT identify mismatches in the value stream that drive up supplier costs or drive end users crazy.

Tempo is an advantage that Marine Corps warfighters cultivate. Our 70 percent solution often manifests itself as a bias in Marines to act on less-than-perfect data. CTs use enterprise-wide data, so they are always tempted to slow down to get more. Tempo is important in strategic sourcing and helps to avoid having CTs that perpetually generate elegant but obsolete improvements.

The Wrap-up

The Marine Corps chose to go with the Censeo recommendation. The IT CT and Clothing QH CT reported back with the desired savings for POM 08. The Metals QH CT was aborted when it became obvious that future metal requirements were expected to taper off well before fiscal year 2008, hence there was no savings stream.

An Office Equipment QH CT replaced the Metals QH CT. The Office Equipment QH CT was a natural spin-off of the IT CT and reported back with the desired savings for POM 08.

The Clothing QH CT identified the limits on how lean we can go in our Marine Corps culture. In the process of gathering information from stakeholders, the Clothing QH CT inadvertently generated demand in the stakeholders for a follow-on project in a closely related area using the same techniques.

The membership of the Professional Services CT and the Maintenance of Equipment CT was updated in December 2005, in order to activate the CTs during the second quarter of fiscal year 2006.

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