



## **Report to the Secretary of Defense**

### **Strategic Sourcing**

#### Report FY11-02

- **Recommendations to enable DoD to more fully employ the management philosophy of strategic sourcing, as a means to better meet DoD's current and future requirements while generating savings**



## Strategic Sourcing

### TASK

The Department of Defense is committed to modernizing its management processes to better support its operational mission. With the growing challenge of Federal Government budget deficits, the importance of achieving efficiencies in resources, time and finances is increasing. Similar multi-dimensional challenges are frequently experienced in the commercial sector.

The Chairman of the Defense Business Board (DBB) established the Strategic Sourcing Task Group to evaluate the applicability of strategic sourcing to address the Department's need for increased efficiencies and effectiveness. In the commercial sector, the management philosophy of strategic sourcing drives costs out of the supply chains for both goods and services, while improving related business practices to increase marketplace competitiveness. Strategic sourcing begins with a detailed understanding of an organization's spend on goods and services that is then coupled with better acquisition practices to gain pricing efficiencies. It is a metrics-based innovation process that enhances the organization's mission delivery while driving costs out of the enterprise. Both efficiencies and effectiveness are increased.

Specifically, the Task Group was asked to assess the current state of DoD's strategic sourcing initiatives, identify commercial strategic sourcing best practices with potential applicability to DoD, and recommend opportunities to enhance or improve the current strategic sourcing initiatives in the Department. A copy of the official Terms of Reference (TOR) may be found at **Appendix A**.

William Phillips and Leigh Warner co-chaired the Task Group. Kelly Van Niman was the Task Group's Secretariat Representative.

### PROCESS

The Task Group conducted over 20 interviews. In order to understand current strategic sourcing initiatives and future plans of the

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Department, leaders within each of the Military Services, Defense Logistics Agency, Defense Contract Management Agency, and the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD(AT&L)) were interviewed. Discussions with the Office of Management and Budget (OMB) provided a government-wide perspective of current strategic sourcing as well as an external view of DoD's efforts. The Task Group also interviewed representatives of four corporations that are recognized leaders of strategic sourcing best practices in order to understand the operational improvements and cost savings resulting from these commercial efforts and to assess which of these best practices, if any, might have applicability to DoD. To supplement these interviews, a literature search was conducted to provide additional perspectives and best practices. The Task Group's draft findings and recommendations were presented before the full Board for deliberation at the January 20, 2011 Quarterly Board Meeting. The Board voted to approve the recommendations. See **Appendix B** for a copy of the final presentation approved by the Board.

## FINDINGS

The commercial sector widely recognizes strategic sourcing as a business imperative. Strategic sourcing uses business process innovation to reduce costs while increasing operational effectiveness. It is not a one-time, cost reduction event. Rather, it is a multi-year systemic approach consistently applied throughout the on-going business operations of the organization. Typically, strategic sourcing cost savings over an initial three to five year period can be high, often in the 15-25% range. Additionally, strategic sourcing can deliver improved competitive performance in the market, better cost management year over year, and fundamental business operations improvement. Leveraging supplier innovation to improve future capabilities, such as the application of mobile computing in basic business operations, or driving a better alignment of goods and services with mission requirements, are examples of business operations improvement that create both cost savings and performance improvement.

The Task Group's investigation through corporate interviews and a literature search resulted in consistent findings that described the importance of strategic sourcing as a key element of all successful

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commercial organizations. In many instances, senior executives of private sector companies have introduced strategic sourcing initiatives as a “way forward” during a period of extreme financial and/or organizational stress. Since it is not uncommon to find strategic sourcing to be an important element of organizational transformation initiatives in the private sector, commercial strategic sourcing best practices provide valuable and appropriate examples for the Department.

The Task Group found that current DoD strategic sourcing initiatives are primarily tactical and focus on market research and the front-end analysis of spending patterns. While OUSD(AT&L) provides spend analysis data on some categories to the Military Services and Defense Agencies to help with their buying decisions, this information is most commonly used as market research to identify pricing efficiencies.

There is a significant opportunity for the Department to incorporate more robust strategic sourcing best practices into its operations and business models. The Department’s total annual spend of nearly \$400 billion on goods and services is a substantial base for a long term strategic sourcing initiative to achieve results. Even 1% in cost savings would yield nearly \$4B annually. Equally important would be the enhanced mission delivery, achieved through re-design of business processes and components to enhance operational effectiveness and competitiveness.

Strategic sourcing is a commonly used term in DoD today. However, its definition is not consistently used across the Department and its practices are not consistently recognized. In fact, the Joint Staff has not acknowledged the term with an official definition. The current DoD management approach has been to allow each of the Military Services and Defense Agencies to independently evolve their own strategic sourcing programs. The Air Force is the furthest ahead in this, with the establishment of commodity councils and a management philosophy that seems to embrace the principles of strategic sourcing as commonly applied in the commercial sector. The Defense Logistics Agency (DLA) has the most mature strategic sourcing effort underway, but this effort represents only 10% of the total DoD spend and is focused primarily on high volume consumables.

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Governance over current DoD strategic sourcing efforts is loosely guided by the Strategic Sourcing Directors Board (SSDB). This Board is led by the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) along with members from each of the Military Services, Joint Staff, and some Defense Agencies. The SSDB is largely an information sharing group, without an adjudication role over its members and is probably best described at present as being a “best practices” sharing group. While such sharing is useful to the broader strategic sourcing process, it is not nearly enough to align initiatives across the Military Services for maximum efficiency and effectiveness or to de-conflict efforts.

There are additional challenges to the strategic sourcing ecosystem within DoD that must also be addressed. Small business and other socio-economic buying requirements as well as the relationship with other government organizations such as Office of Management and Budget (OMB), the General Services Administration (GSA), and even the U.S. Congress are issues that DoD must address in its strategic sourcing process that are not typically critical in the private sector. While these factors may constrain the ultimate size of the strategic sourcing cost savings and effectiveness enhancements at DoD, they do not preclude the substantial benefits of a comprehensive strategic sourcing initiative.

Comprehensive strategic sourcing provides important management options to DoD within the constraints of the current fiscal and operational environments. Current efforts by the Department combined with select best practices of the private sector can provide both a foundation and roadmap to integrate the broader philosophy and concepts of strategic sourcing into the \$400B annual spend. Driving unnecessary costs out of the system while developing operational improvements will be critical for DoD’s future mission effectiveness and affordability.

## OPTIONS CONSIDERED

In reviewing the current DoD approach to strategic sourcing and comparing it to commercial best practices, the Task Group developed four distinct management options. A detailed summary of the four options can be found in **Appendix B**.

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1. **Current Approach Option: MILDEP Better Buying Power.** Continue the current effort which is primarily implemented as pricing-focused market research and not strategic sourcing.
2. **Option 1: MILDEP Strategic Sourcing.** This option expands the scope of the current market research oriented program beyond pricing improvements on Acquisition Category (ACAT) programs. This option recognizes the need for additional management resources to help lead the program and suggests greater use of executive agents across DoD for common goods and services.
3. **Option 2: MILDEP Strategic Sourcing Innovation.** Incorporate the more comprehensive principles of innovative strategic sourcing with an orientation of moving toward a more centralized cross-departmental approach over time. This option calls for greater focus on establishing goals and accountability with stronger governance.
4. **Option 3: DoD Strategic Sourcing Innovation.** This option calls for the immediate adoption of a commercial best practices model that centralizes the design and management of all strategic sourcing programs with the expectation that this will offer the most comprehensive and innovative approach to strategic sourcing in the Department .

The Task Group concluded that the Department will significantly sub-optimize both cost savings and process innovation if it continues to implement strategic sourcing along the current market research-centric trajectory, as characterized largely by the current approach. Option 3 was considered likely to be too disruptive to current operations and culture. Therefore, the Task Group focused on Options 1 and 2, concluding that Option 2 offered the best opportunity to drive significant innovation and cost reduction now, while moving the Department gradually in the direction of commercial best practices characterized in Option 3. Option 1 was discounted largely because it would not likely deliver the increased effectiveness on the scale demanded by the Secretary's commitment to re-shape the Department and introduce better business practices.

## RECOMMENDATIONS

Based on the Task Group findings and the decision to recommend implementation of Option 2: MILDEP Strategic Sourcing Innovation, the Defense Business Board offers a series of specific recommendations to achieve a more effective adoption of the tenants of strategic sourcing by DoD. These recommendations are offered within a strategic sourcing innovation framework that is based on the best practices of private sector corporations that are also appropriate for the Department. The recommended framework elements are:

**Vision** – DoD must establish a strategic sourcing vision. This vision should incorporate the “Better Buying Power” initiative begun by USD(AT&L) and drive the Department toward a comprehensive application of strategic sourcing that includes process redesign to achieve increased effectiveness as well as reduced costs.

**Management Philosophy** – The strategic sourcing ecosystem across the Department, including external organizations such as OMB, GSA, and Congress, must be recognized and incorporated into a shared approach to strategic sourcing in order to maximize the longer-term benefits to DoD.

**Governance** – Strategic sourcing directives and initiatives must be governed in an institutionalized, real time process to both manage the direction of program elements and leverage benefits across the Department and potentially across the government as a whole.

**Accountability** – The Military Departments and Defense Agencies must be held accountable to achieve strategic sourcing milestones and results that deliver process improvement and cost reduction.

**Focus** – DoD must leverage the current strategic sourcing initiatives in the Military Departments and Defense Agencies to provide a jump start for a longer-term and more comprehensive approach. Such early “wins” provide “proof points” of the benefits of the type of robust strategic sourcing goals that are now common in the private sector.

**Incentives, Metrics, and Systems** – Changing process and behavior requires the creation and use of incentives. Metrics provide DoD with the ability to measure progress and success, while systems provide the capability to collect information and implement best practices.

Within the proposed framework, the DBB offers several recommendations that are designed to improve the implementation of strategic sourcing in DoD. More detailed descriptions of recommended elements and implementation steps can be found in **Appendix B**.

1. **Establish a DoD sourcing vision that incorporates “Better Buying Power” and drive the DoD enterprise toward it.** This would include the use of a new definition of strategic sourcing. The current OMB definition employed by DoD is focused on spend analysis rather than a more robust characterization of strategic sourcing that emphasizes process improvement. The proposed definition of strategic sourcing is: “Strategic sourcing is a management process of metrics-based innovation that enhances mission delivery while reducing total cost across the enterprise.” This definition should be used in the FY2012 budget planning.
2. **Build a deep and wide strategic sourcing Ecosystem at DoD to reap full benefits.** Taking the approach to drive initiatives across the DoD enterprise as soon as possible will create greater process improvement and cost savings. Likewise, leveraging efforts across the government, particularly with agencies such as GSA, offers benefits to the Department.
3. **Oversee strategic sourcing directives through an institutionalized, real-time process.** Allocating the resources to support an expanded strategic sourcing initiative and establishing on-going governance will be critical to ultimate success across the Department. A high-level Strategic Sourcing Coordination Office (SSCO) within OUSD(AT&L) should be established to coordinate the initiative for DoD. In addition, a Strategic Sourcing Governance Board (SSGB) with governance authorities greater than those of the SSDB needs to be created to approve, adjudicate, and assess initiatives across the Department.

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4. **Hold MILDEPs and Defense Agencies accountable for specific DoD strategic sourcing milestones.** A Department-wide implementation plan to establish process steps and objectives along with establishment of the business process controls to assess implementation success and areas for improvement are basic requirements of a successful strategic sourcing initiative.
5. **Introduce the new DoD strategic sourcing vision through comprehensive leadership and management.** Capitalizing on current initiatives, implementing new “proof point” projects to demonstrate early success and injecting senior leadership attention to results will drive organizational behaviors in a direction that helps lay the foundation for strategic sourcing throughout the Department.
6. **Develop incentives, led by the SSGB, supported by the SSCO.** Managing the change associated with strategic sourcing requires incentives to motivate progress. Incentives focused on rewarding personal behavior, organizational behavior and cross-organizational cooperation, including annual ratings impact and allowing organizations to reinvest portions of their savings, should be considered.
7. **Under the guidance of the SSGB, achieve data commonality across DoD.** The current lack of Department-wide standards with respect to data and information will make shared progress on many common procurements hard and the assessment of results difficult.
8. **Focus on developing common systems to provide a consistent and affordable IT backbone across all MILDEPs.** Common systems enable better data and information tracking.
9. **USD(AT&L) should launch the DoD-Aligned Strategic Sourcing Innovation Initiative in conjunction with the FY2012 planning process,** in four steps:
  - i. Set the stage – Month 1 (Responsibility: USD(AT&L), Service Secretaries, Comptroller, and Defense Procurement Acquisition Policy (DPAP))

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- ii. Establish the governance model – Months 1-4  
(Responsibility: USD (AT&L), Services Secretaries,  
Comptroller and DPAP)
- iii. MILDEP strategic sourcing plan development – Months 2-4  
(Responsibility: MILDEP Senior Acquisition Executives)
- iv. Move out with strategic sourcing innovation – Month 5+

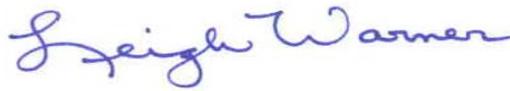
## CONCLUSION

The Board recognizes the importance of reducing overhead and increasing efficiencies within the Department of Defense. Strategic sourcing can become an integral component of this critical effort. The Board is confident that these recommendations will enable the Department to employ strategic sourcing, both within and across DoD and with its global partners, in order to effectively position DoD to meet today's requirements and future strategic threats in the most cost-effective way possible.

Respectfully submitted,



William Phillips  
Task Group Co-Chair



Leigh Warner  
Task Group Co-Chair

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APPENDIX A  
TERMS OF REFERENCE

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DEFENSE  
BUSINESS  
BOARD

DEFENSE BUSINESS BOARD  
1155 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1155

August 27, 2010

MEMORANDUM FOR WILLIAM PHILLIPS AND LEIGH WARNER

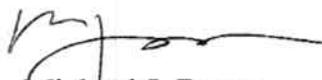
SUBJECT: Terms of Reference – “Strategic Sourcing”

The Secretary of Defense is committed to reshaping the Department of Defense (DoD) by modernizing processes to achieve real savings and efficiencies. As the Secretary continues to make tough decisions in this constrained budget environment, DoD must strategically manage its expenditures to optimize results. Implementation of the management philosophy of strategic sourcing has helped industry leaders achieve 15-30% enterprise savings over time while also creating competitive advantages through efficiencies. Likewise, DoD seeks savings and efficiencies to enhance critical military capabilities.

Request you co-lead a DBB Task Group to develop recommendations to enable DoD to employ the philosophy of Strategic Sourcing, both within DoD and with its global partners, as a means to position DoD to meet today’s requirements and future threats. Consider global best practices, definitions of and approaches to strategic sourcing, and the proven successful management techniques that delivered desired outcomes. Assess DoD’s current strategic sourcing activities and propose alternative management approaches to better optimize results.

Please provide me with an update on your findings at the October 2010 DBB meeting and present draft recommendations for the Board to deliberate at the January 2011 DBB meeting. Kelly Van Niman will serve as DBB Secretariat Representative.

As a subcommittee of the Board, and pursuant to the Federal Advisory Committee Act of 1972, the Government in the Sunshine Act of 1976, and other appropriate federal regulations, this Task Group shall not work independently of the Board’s charter and shall report its recommendations to the full Board’s public deliberation. The Task Group does not have the authority to make decisions on behalf of the Board, nor can it report directly to any federal officer who is not also a Board member. The Task Group will avoid discussing “particular matters” according to Section 208 of Title 18, U.S. Code.

  
Michael J. Bayer  
Chairman



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APPENDIX B

FINDINGS AND RECOMMENDATIONS PRESENTED

TO THE FULL BOARD ON JANUARY 20, 2011

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Strategic Sourcing

Task Group

January 20, 2011

# Task Group Overview

## Terms of Reference Deliverables

- Recommendations to facilitate DoD use of the philosophy of Strategic Sourcing
- Identify global best practices, definitions and approaches to strategic sourcing, and the proven successful management techniques that delivered desired outcomes
- Assess DoD's current Strategic Sourcing activities and propose alternative management approaches to optimize results

## Task Group

Mr. William Phillips (Co-Chair)

Ms. Leigh Warner (Co-Chair)

## Task Group Executive Secretary

Kelly Van Niman

# Overview of Key Findings/DoD Areas of Opportunity

- **Strategic Sourcing in the Commercial Sector today is widely-recognized as being a business imperative**
  - Goal is to achieve significant cost savings over initial three to five year period, with enduring business process enhancements that are also accompanied by sustainable future savings
  - Important source of operational improvement and competitive advantage
  - Usually initiated by the Executive Suite as a Way Forward during a period of extreme financial and/or organizational stress
- **DoD Total Annual Spend of \$400B is substantial base for Strategic Sourcing**
  - Each 1% cost reduction would represent \$4B+ savings
  - Inefficiencies and redundancies also represent numerous Strategic Sourcing opportunities to deliver operational improvement and competitive advantage
- **Federal budgetary and DoD Operational Tempo pressures are serious, now and for the foreseeable future**
  - Strategic Sourcing is the management philosophy that uses business process innovation to deliver BOTH cost reductions and increased operational effectiveness
  - Current DoD and USG Strategic Sourcing efforts are underdeveloped versus the size and scope of Strategic Sourcing Initiatives in the Commercial Sector
- **Proposed “Way Forward” Options for DoD Strategic Sourcing explore alternative degrees of coordination and integration across the Defense Enterprise**
  - Commercial Sector generally manages Strategic Sourcing as an integrated C-Suite initiative with direct involvement of CEO

# Key Findings – Current DoD Strategic Sourcing

- **Current DoD “Strategic Sourcing” is primarily tactical, front-end analysis**
  - “Use of Spend Analysis Data” is equated with “Implementation of Strategic Sourcing”
  - Recent USD(AT&L) “Better Buying Power” memos represent strategic progress
  - DPAP/Office of Strategic Sourcing is nominally responsible for Strategic Sourcing within DoD
- **DoD is permitting each MILDEP to evolve its own Strategic Sourcing approach on its own timetable**
  - DLA Consumables, the leading examples of DoD Strategic Sourcing, represent roughly 10% of DoD \$400B Spend
  - Air Force is furthest along toward establishing a robust Strategic Sourcing philosophy and management process, followed by Navy, with Army early in the exploratory phase
- **Integration and coordination of DoD’s Strategic Sourcing is currently limited**
  - Emphasis is on data spend analysis and Strategy Sourcing Directors Board
  - Cross-MILDEP benefits realized to date are negligible beyond DLA Consumables
  - Integrated DoD goals and targets are not apparent

There is a great opportunity to improve performance

# Commercial Sector Best Practices

- **Commercial Sector “Strategic Sourcing” Best Practices provide significant and appropriate examples for DoD**
- **Examples are much broader than “Spend Analysis”, “Improved Contracting” or “Commodity Management”**
- **Cost savings are targeted to directly improve competitive performance, operating margins and market share growth**
- **Best Practices of Commercial Sector Strategic Sourcing:**
  - Led from the top of the corporation as a critical corporate initiative
  - Governance and assessment of progress is routine and transparent
  - Metrics-based innovation process to deliver competitive advantage
  - Business process improvements achieved while costs are being reduced
  - Shared practices to facilitate innovation and collaboration between business units, suppliers and customers
  - Rogue buys are penalized
  - IT backbone for timely, accurate and appropriate information is key enabler
- **Commercial Sector Results:**
  - Using 18 global strategic sourcing teams to transform acquisition practices and deliver \$1B savings, a 14% reduction (Tyco)
  - Global costs driven down 21% in face of 30% logistics volume growth (IBM)
  - Inventory costs reduced by \$600M (Best Buy)
  - Common IT systems and tradecraft facilitate acquisition integration and service quality improvement (FedEx)
  - Ongoing initiatives drive 5% year over year cost savings and are expected into the future (Wal-Mart)
  - Rationalizing global product line and supply chain to streamline cost structure during “near-death” experience (IBM and Ford)

Innovation to Deliver Competitive Advantage = “Strategic Sourcing”



# Strategic Sourcing Considerations for DoD

- **DoD has unique constraints/concerns impacting Strategic Sourcing opportunities that must be considered**
  - Socio-economic requirements
  - Industrial policy and supplier relationship communication
  - BRAC
  - Perspective of the industrial supply base and Congress
- **Several concerns regarding DoD Strategic Sourcing that moves beyond use of Spend Data were heard during interviews**
  - Timing isn't right...We are at war and need to be focused on fulfilling warfighter needs
    - **Yet**, IBM and Ford embraced Strategic Sourcing as a critical management philosophy when they were in self-described "near death" spirals
  - Title X constraints and the flow of money
    - **Yet**, globally integrated corporations address similar constraints through governance and shared process improvement
  - MILDEP-specific needs require MILDEP-specific Strategic Sourcing initiatives
    - **Yet**, extremely diversified conglomerates drive Strategic Sourcing centrally in order to manage strategic sourcing tradeoffs

# DoD Definition of Strategic Sourcing

- **Current definition emphasizes Cost Savings through Spend Analysis**

“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 efficiently and effectively.”  
–OMB 2005 Definition

  - “Make business decisions....more efficiently and effectively”
  - “Acquiring....more efficiently or effectively”
  - Spend analysis is the focal point
  - Business process innovation derived from Strategic Sourcing was rarely mentioned by DoD leaders interviewed
  - By contrast, commercial sector Strategic Sourcing executives consider “Innovation of the Value Proposition” to be of equal importance to “Cost Savings” in the near term and of greater importance over the longer term
- **Within DoD there is inconsistent recognition of current definition**
  - OUSD(AT&L)/DPAP has promulgated the OMB 2005 definition within DoD
  - No Joint Staff definition of Strategic Sourcing is available to MILDEPs
    - “Strategic Sourcing” is not included in DoD Dictionary of Military and Associated Terms
  - MILDEPs are evolving their own definitions and interpretations of Strategic Sourcing

Use of Spend Analysis = Better Contracting = “Strategic Sourcing”



# Proposed DoD Definition of Strategic Sourcing

- Use FY2012 Budget Planning to introduce new Strategic Sourcing definition across the DoD enterprise:

**“Strategic Sourcing is a management process of metrics-based innovation that enhances mission delivery while reducing Total Cost across the enterprise.”**

## Proposed Definition Elements

Management process  
(Strategic/Operational)  
Metrics-based  
Innovation  
Enhances mission delivery while reducing total cost  
Across the enterprise (end-to-end, fully allocated)

## Current Definition Elements

Process of analysis & using information to decide  
(Tactical)  
Analysis of organization’s spend  
Business buying decisions  
Acquiring more effectively and efficiently  
Commodities and services

Enhanced Mission Delivery + Cost Savings = Innovation = “Strategic Sourcing”

# DoD Strategic Sourcing FY2012 Planning Options

Definition of Strategic Sourcing	“Better Contracting”		“Innovation” = “Enhanced Mission Delivery + Cost Savings”	
	Current Approach	Option 1	Option 2	Option 3
FY2012 Planning Options	<p><b>MILDEP Better Buying Power</b></p>	<p><b>MILDEP Strategic Sourcing</b></p>	<p><b>MILDEP Strategic Sourcing Innovation</b></p>	<p><b>DoD Strategic Sourcing Innovation</b> (Commercial Model)</p>
Key Elements	<ul style="list-style-type: none"> <li>• Better Buying Power policy</li> <li>• Strategic Sourcing Directors’ Board</li> <li>• Spend Analysis</li> </ul>	<ul style="list-style-type: none"> <li>• New OUSD(AT&amp;L) resources</li> <li>• Scope expansion beyond ACAT programs</li> <li>• Executive agent for common goods/services</li> </ul>	<ul style="list-style-type: none"> <li>• MILDEP-centric Innovation with evolving DoD alignment</li> <li>• Established goals and accountability</li> </ul>	<ul style="list-style-type: none"> <li>• Pan-DoD centralized leadership and control</li> <li>• Investments in common IT backbone and cross -DoD practices</li> </ul>
Pros	<ul style="list-style-type: none"> <li>• Guidance in place</li> <li>• Additional investment required</li> <li>• Service implementation underway</li> </ul>	<ul style="list-style-type: none"> <li>• Accelerates/Increases cost reductions savings</li> <li>• Leverages some industry Best Practices</li> </ul>	<ul style="list-style-type: none"> <li>• Offers Best Option to achieve innovation while delivering efficiencies</li> <li>• Provides transformational approach to facilitate future pan-DoD alignment that drives value</li> <li>• Facilitates future plans</li> </ul>	<ul style="list-style-type: none"> <li>• Drives Innovation to Deliver Competitive Advantage</li> <li>• Proven to maximize savings/cost take-out</li> <li>• Industry approach and results are applicable to DoD</li> <li>• Offers future vision of culture of on-going cost reduction</li> </ul>
Cons	<ul style="list-style-type: none"> <li>• Limits innovation and cost savings potential</li> <li>• Future pan-DoD expansion will be harder</li> </ul>	<ul style="list-style-type: none"> <li>• Leveraging across Services still limited</li> <li>• Results will be less than DoD needs</li> </ul>	<ul style="list-style-type: none"> <li>• Requires investment in tight fiscal environment</li> <li>• Requires some centralized planning and governance</li> </ul>	<ul style="list-style-type: none"> <li>• Extremely challenging given the environment and culture</li> </ul>

# Preliminary Recommendation

- **Implement Option 2 – MILDEP Strategic Sourcing Innovation**

- **Rationale**

- Upfront coordination sows the seeds of much greater future efficiencies/effectiveness
- Builds upon success of Shared Strategic Sourcing Innovation framework (Slide 9)

- **Pros**

- Reduces need to re-tool independently developed MILDEP plans
- Achieves data and commonality across DoD to facilitate sharing and integration
- Enables DoD Industrial Base to maximize efforts across MILDEP relationships
- Defense Contract Management Agency (DCMA) gains visibility into consolidated buying opportunities

- **Cons**

- Will require additional upfront resource commitments not currently in place
- May require some reconciliation with Title X requirements for full implementation
- Presents change management challenges that may prove difficult for DoD

# Strategic Sourcing Innovation Framework for Option 2

- **VISION**
  - Establish a DoD Strategic Sourcing vision that incorporates “Better Buying Power” and drive DoD enterprise toward it
- **MANAGEMENT PHILOSOPHY**
  - Build a deep and wide Strategic Sourcing ecosystem at DoD to reap full benefits
- **GOVERNANCE**
  - Oversee Strategic Sourcing Directives through an institutionalized, real-time process
- **ACCOUNTABILITY**
  - Hold MILDEPS and Defense Agencies accountable for specific DoD Strategic Sourcing Milestones
- **FOCUS**
  - Capitalize on current initiatives in MILDEPs and DLA to jump start a more comprehensive and long-term approach, concentrating on early wins as “proof points”
- **INCENTIVES, METRICS and SYSTEMS**
  - Changing process and behavior requires incentives and the ability to measure progress through accepted metrics on shared systems

# Desired Future Elements of DoD Strategic Sourcing

- Requirements for individual goods and services
- Forecasting
- Procurement Strategy
- Spend Analysis, including Indirect Spend
- Spend Management
- Business Process Management to enhance both efficiency and effectiveness
- Common Business Policies and Procedures (Tradecraft)
- Workforce Development
- Aggregation of Spend (Category Management)
- Bundled Services
- Supplier Relationship Management
- Supplier Enablement
- IT Backbone and E-commerce
- Enterprise Governance

Spend Analysis is only one element of Strategic Sourcing



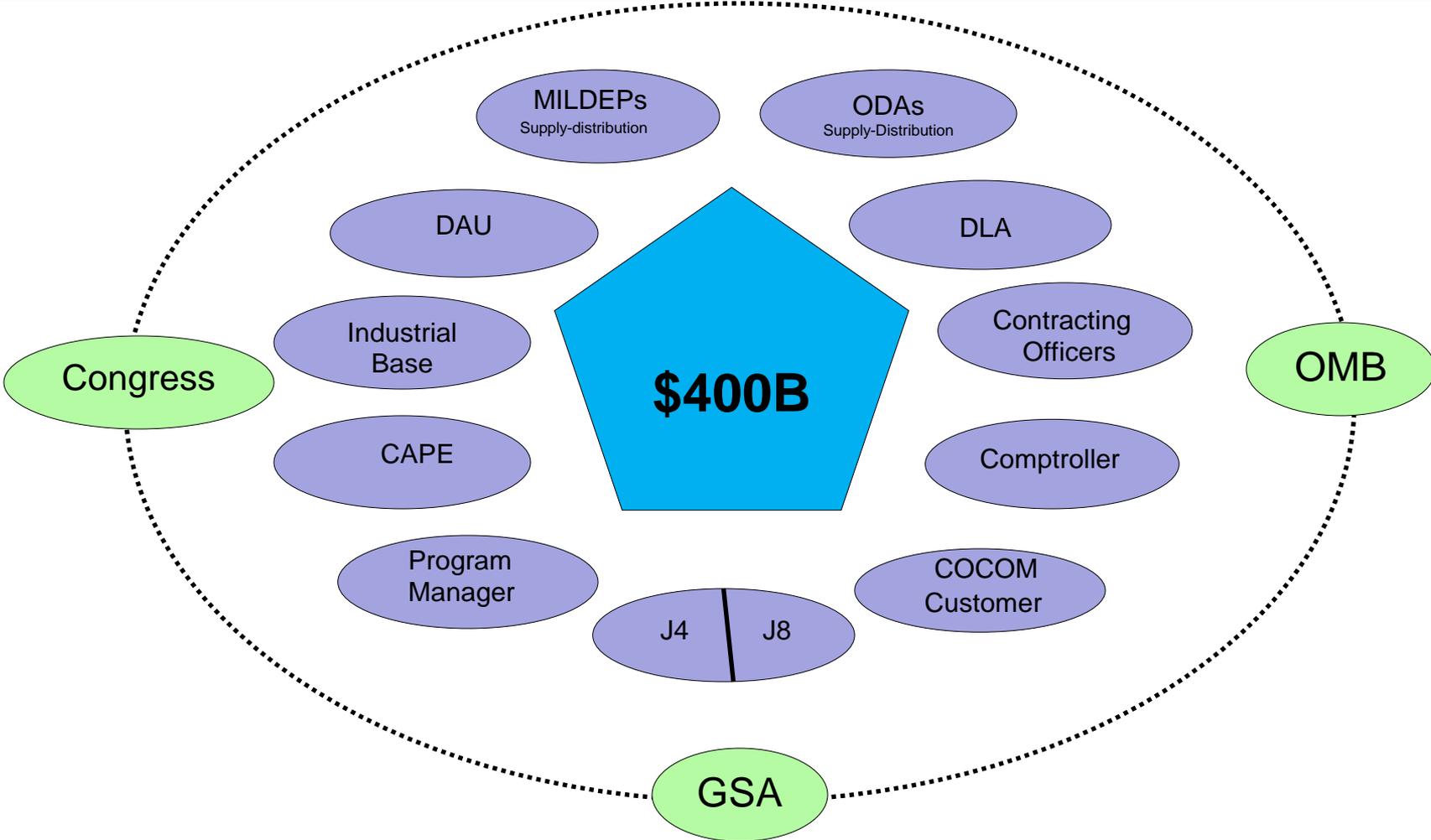
# IMPLEMENTATION: Vision

- **Establish a DoD Sourcing vision that incorporates “Better Buying Power” and drive the DoD enterprise toward it**
  - USD (AT&L) to use FY 2012 Planning Process to:
    - Introduce new definition of Strategic Sourcing
      - “Enhanced Mission Delivery + Reduced Total Cost Across the Enterprise” = Innovation
    - Introduce the Strategic Sourcing Innovation Framework
      - Vision, Management Philosophy, Governance, Accountability, Focus, and Metrics/Systems
    - Establish Planning Option 2 as the Vision for DoD Strategic Sourcing:
      - “MILDEP-centric Strategic Sourcing Innovation with Evolving DoD Alignment”

# IMPLEMENTATION: Management Philosophy

- **Build a deep and wide Strategic Sourcing Ecosystem at DoD to reap full benefits**
  - Recognizing and leveraging the Strategic Sourcing Ecosystem to implement best practices across DoD agencies and MILDEPs is critical for long-term success
    - Facilitates use of common practices that multiply efficiencies
    - Drives greater cost savings and overhead reduction
    - Minimizes inevitable creation of redundancies and process conflicts if MILDEPs are allowed to evolve Strategic Sourcing along independent trajectories
  - Governance processes must also embrace organizational elements across the ecosystem
- **Corporate best practices highlight the significant positive impact of an aligned Strategic Sourcing ecosystem**
  - End-to-end innovation thru Planned collaboration = Efficiency and Effectiveness Multiplier
  - Business process improvement, mission delivery and long-term cost savings/take out
  - Better building blocks for the future = greater cost reduction, achieved sooner

# DoD Strategic Sourcing Ecosystem



Enhanced Mission Delivery & Customer Savings

# IMPLEMENTATION: Governance

- **Oversee Strategic Sourcing Directives through an institutionalized, real-time process**
  - Establish Strategic Sourcing Coordination Office (SSCO) reporting directly to USD(AT&L)
  - Office responsibilities include:
    - Identification and active promulgation of Best Practices
    - Identification and monitoring of MILDEP Strategic Sourcing Goals and Management practices
    - Reach back office for MILDEP Strategic Sourcing support and expertise
    - Contact point for Industrial Base for transparency and MILDEP de-confliction
    - Provide Spend Analyses to MILDEP
    - Early warning on emerging issues (e.g., MRAP ballistic steel, rare earth minerals)
  - Ideal candidate for SSCO Leader is currently head of Commercial Strategic Sourcing initiative and has significant military acquisition experience (e.g., retired flag officer)
  
- **Rationale:**
  - Aligned evolution of MILDEP Strategic Sourcing offers greatest advantage to DoD
  - Independent evolution of MILDEP Strategic Sourcing will:
    - Create new inefficiencies and redundancies
    - Reduce effectiveness of DoD relationship with the Industrial Base
    - Slow implementation as existing capacities are re-created rather than adapted

# IMPLEMENTATION: Governance

- **Oversee Strategic Sourcing Directives through an institutionalized, real-time process**
  - Establish Strategic Sourcing Governance Board (SSGB) on a higher level to replace Strategic Sourcing Directors Board
    - SSGB Members include: SSCO Leader (Chair), MILDEP Acquisition Executives, J-4, J-8, DLA, DPAP, DCMA, CAPE, AMC, AFMC, NAVSUP, ASD (L&MR), Comptroller
    - Inventory and assess current Strategic Sourcing capacities operating within MILDEPs
    - Utilize business case approach to identify Cross-MILDEP capacities
    - Designate DLA or MILDEP Executive Agent to negotiate terms on range of options from which MILDEPs/ODAs can select or explain deviation
    - With Comptroller explore alternatives to transfer pricing to facilitate synergies & efficiencies
    - Review Performance Based Logistics and Life Cycle Management current practices that facilitate/constrain efficiencies
    - Evolve to Book of Standards for Strategic Sourcing of Services
    - Adjudicate MILDEP plans and develop a DoD Master Plan for Strategic Sourcing Innovation

# IMPLEMENTATION: Governance

- **Oversee Strategic Sourcing Directives through an institutionalized, real-time process (cont.)**
  - Establish a Strategic Sourcing Advisory Board (SSAB) of 10-12 senior commercial executives with experience leading Strategic Sourcing initiatives
    - Support development of DoD Strategic Sourcing tradecraft, nomenclature and metrics
    - Provide sounding board
  - Identify Cross-MILDEP Subject Matter Expert (SME) Teams
    - Reduce duplication of effort
    - Build on existing knowledge base
    - Anticipate one face to the supplier base

Independent evolution of MILDEP Strategic Sourcing, without central coordination and leadership, will result in smaller cost savings and create new redundancies making future consolidation efforts more difficult, more expensive and longer to fruition.

# IMPLEMENTATION: Accountability

- **Hold MILDEPs and Defense Agencies accountable for specific DoD Strategic Sourcing milestones**
  - Establish a DoD Master Plan for a phased approach to Strategic Sourcing Implementation
    - Set cost reduction goals
    - Set milestone dates
    - Establish focus areas
    - Publicize and share across DoD
  - Develop a business controls process with performance audits to assess implementation success and improvement areas
    - Common business practices based on best practices should form the core of the strategic sourcing practices in DoD
    - Audits provide structured way to assess progress, identify process weaknesses and develop “get well” plans
    - Audit execution would be the responsibility of USD(AT&L)
    - Start small in key process areas and grow the approach over time

Plans without follow-up and accountability will fall short of expectations

# IMPLEMENTATION: Focus

- **Introduce new DoD Strategic Sourcing Vision through comprehensive leadership and management**
  - Conduct inventory and assessment of all Strategic Sourcing capacities currently operating within MILDEPs
  - Determine which capacities to build upon in order to curtail additional inefficiencies
    - E.g., Navy facilities management contracting templates
  - Establish Supply Strategic Opportunities as concentration points for cross-MILDEP cooperation
    - USD (AT&L) to declare three to five high value, ubiquitous areas for immediate Cross-MILDEP coordination and rationalization (e.g., facilities maintenance contract templates, cell phone service contract negotiations, laptops)
  - Establish Executive Agent for commonly procured products/services to eliminate duplicative sourcing activities by MILDEPs and to improve pricing/terms
    - Consider DLA or designated Service as executive agent
    - E.g., facilities maintenance, cell phone service contracts

Capitalize on current initiatives in MILDEPs and DLA to jump start a more comprehensive approach, concentrating on early wins as proof points

# IMPLEMENTATION: Incentives, Metrics and Systems

- **Develop incentives, led by the SSGB, supported by the SSCO**
  - Imbed achievement goals in performance evaluation/criteria of appropriate leaders and staff
  - Tie advancement to achievement of program goals
  - Recognize successful best practice sharing across MILDEPs
  - Share financial savings with implementing organization
- **Under the guidance of SSGB, achieve data commonality across DoD**
  - Develop and implement new metrics across MILDEPs and DLA based on Supply-Chain Operations Reference (SCOR) model
    - Planning and risk management
    - Supplier and partner relationship management (DLA furthest ahead)
    - Cost control
    - Customer service
    - Talent development essential for the long term
  - Sample Metrics (will vary by program type and product/services)
    - Percentage of “hands free” transactions, percentage of suppliers participating in sourcing initiatives, quality of supplier base (cost, performance and compliance), ratio of volume sourced to administrative costs, value of “rogue buying” outside approved processes, cycle time from requirement recognition to fulfillment, percentage of business control audits passes, fixed costs vs. variable cost ratios
- **Develop common systems to provide consistent and affordable IT backbone across all MILDEPs**

Changing process and behavior requires incentives and the ability to measure progress through accepted metrics on shared systems

# USD(AT&L) Planning Considerations

## USD (AT&L) to launch DoD Strategic Sourcing Initiative with FY2012 Planning

- **Set the stage—Month 1** (Responsibility: USD(AT&L), Service Secretaries, Comptroller and DPAP)
  - Establish the DoD Strategic Sourcing SWAT Team of SMEs to facilitate start-up
  - Consider retaining outside expertise to bring relevant Best Practice specifics and awareness of implementation challenges to early DoD planning
  - Create Vision and Objectives for DoD and MILDEP/ODA Strategic Sourcing
    - USD(AT&L) to issue memorandum emphasizing the “why” and initial “how-to” steps
  - Formally establish DoD Strategic Sourcing Coordination Office to minimize start-up time and facilitate senior-level attention
  
- **Establish the Governance model—Months 1-4** (Responsibility: USD(AT&L), Service Secretaries, Comptroller and DPAP)
  - Identify Strategic Sourcing Coordination Office leader (retired 3-Star with commercial experience) reporting directly to USD(AT&L)
  - Establish Strategic Sourcing Governance Board to design the governance process (replaces the Strategic Sourcing Directors Board)
  - Work with SAEs to develop uniform DoD template for MILDEP Strategic Sourcing implementation plans
  - Socialize Strategic Sourcing with Defense Industrial Base
  
- **MILDEP Strategic Sourcing Plan Development—Months 2-4** (Responsibility: MILDEP SAEs)
  - Create the MILDEP implementation plans (e.g., goals, milestones, preliminary metrics, focus areas, etc.) according to the uniform DoD template
  - Present to SSGB for approval, de-confliction and shared best practices
    - Establish initial target areas and implementation teams (both within and between MILDEPs/ODAs)
  
- **Move out with Strategic Sourcing Innovation—Month 5+** (Responsibility: All)

# Proposed Outbriefs

- **Secretary of Defense**
- **Deputy Secretary of Defense**
- **Vice Chairman of the Joint Chiefs of Staff**
- **Under Secretary of Defense (AT&L)**
- **Director, OMB**

# Appendix

- **Option 1**
- **Option 2**
- **Option 3**

# Option 1 – MILDEP Strategic Sourcing

- **MILDEP implementation of Better Buying Power Directives PLUS:**
- **STRATEGIC SOURCING ENHANCEMENTS:**
  - Increase AT&L Strategic Sourcing headcount, seniority and resources in support of future consolidated opportunities
  - Expand will cost/should cost management beyond ACAT programs
  - Expedite OUSD(AT&L) coordination of uniform taxonomy for different types of services and also develop for goods
  - Work toward common ERP, potentially based on DLA system and seek funding in FY2012 Budget
  - Expand new redundancy elimination effort across warfighter portfolios (e.g., Cross-Service reconciliation)
  - Establish executive agent for commonly procured products/services to eliminate duplicative sourcing activities by MILDEPs and to improve pricing/terms
    - Consider DLA or designated Service as executive agent
    - E.g., facilities maintenance, cell phones
- **Anticipated Results:**
  - Accelerate cost savings and efficiencies through enhanced MILDEP and DLA relationships

# Option 2 – MILDEP Strategic Sourcing Innovation

## Phase 1

- Implement Accelerated MILDEP Better Buying Power initiatives while simultaneously preparing for future alignment of DoD Strategic Sourcing Innovation
- Establish Governance Board tasked to adjudicate MILDEP plans and develop a DoD Master Plan for Strategic Sourcing Innovation
- Designate a Strategic Sourcing lead for shared commodities/services who acts as the DoD SME on designated category
  - Reduce duplication of intellectual effort and competitive bidding between MILDEPs, DLA, VA and GSA
- Develop and implement new metrics across Services and DLA based on Supply-Chain Operations Reference model
  - Planning and risk management
  - Supplier and partner relationship management (DLA furthest ahead)
  - Cost control
  - Customer service
  - Talent development essential for the long-term

## Phase 2

- Evolve to DoD-wide “Sourcing Innovation” when Services have achieved a critical mass on Better Buying
  - Strategic Partnerships between DLA and key suppliers
  - Application of Performance Based Logistics (PBL) initiatives
  - Use criteria-based analysis to select commodities subject to strategic sourcing (SRM program)

## Anticipated Results:

- Services and DLA will gradually improve metrics-based contracting that will drive some cost savings
- Master plan will be in place to direct evolution of Service-specific efforts
- Transformational nature of Strategic Sourcing will be enhanced through pan-DoD coordination
- Future course corrections will be reduced due to upfront planning (e.g., future rationalization of MILDEP plans)

# Option 3 – DoD Strategic Sourcing Innovation (Commercial Model)

- **Designate an AT&L leader at the 3-star level with primary responsibility for centralized DoD Strategic Sourcing Innovation and Implementation**
- **Articulate Joint Strategic Sourcing Vision**
  - Hold Services/DLA accountable for performance against target metrics
  - Achieve Service alignment and consolidation through redundancy elimination
- **Resource DoD Strategic Sourcing Innovation Initiative to achieve goals**
- **Establish milestones and hold Services accountable**
- **USD(AT&L) to identify three to five high value, ubiquitous areas for immediate cross-service coordination and rationalization (e.g., cell phones, laptops, facilities maintenance)**
  - Possibly DLA or a Service as Executive Agent on consolidated buys
- **Rationalize Performance Based Logistics and Life Cycle Management**
- **Achieve data commonality across DoD to facilitate sharing/integration that leads to improved performance**
- **Anticipated Results:**
  - Services and DLA will gradually improve metrics-based contracting that will drive some cost savings
  - 100% centralization too challenging for world's largest purchaser during wartime