



STRATEGIC SOURCING AND THE IMPACT ON SMALL BUSINESS OPPORTUNITY

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What is Strategic Sourcing?

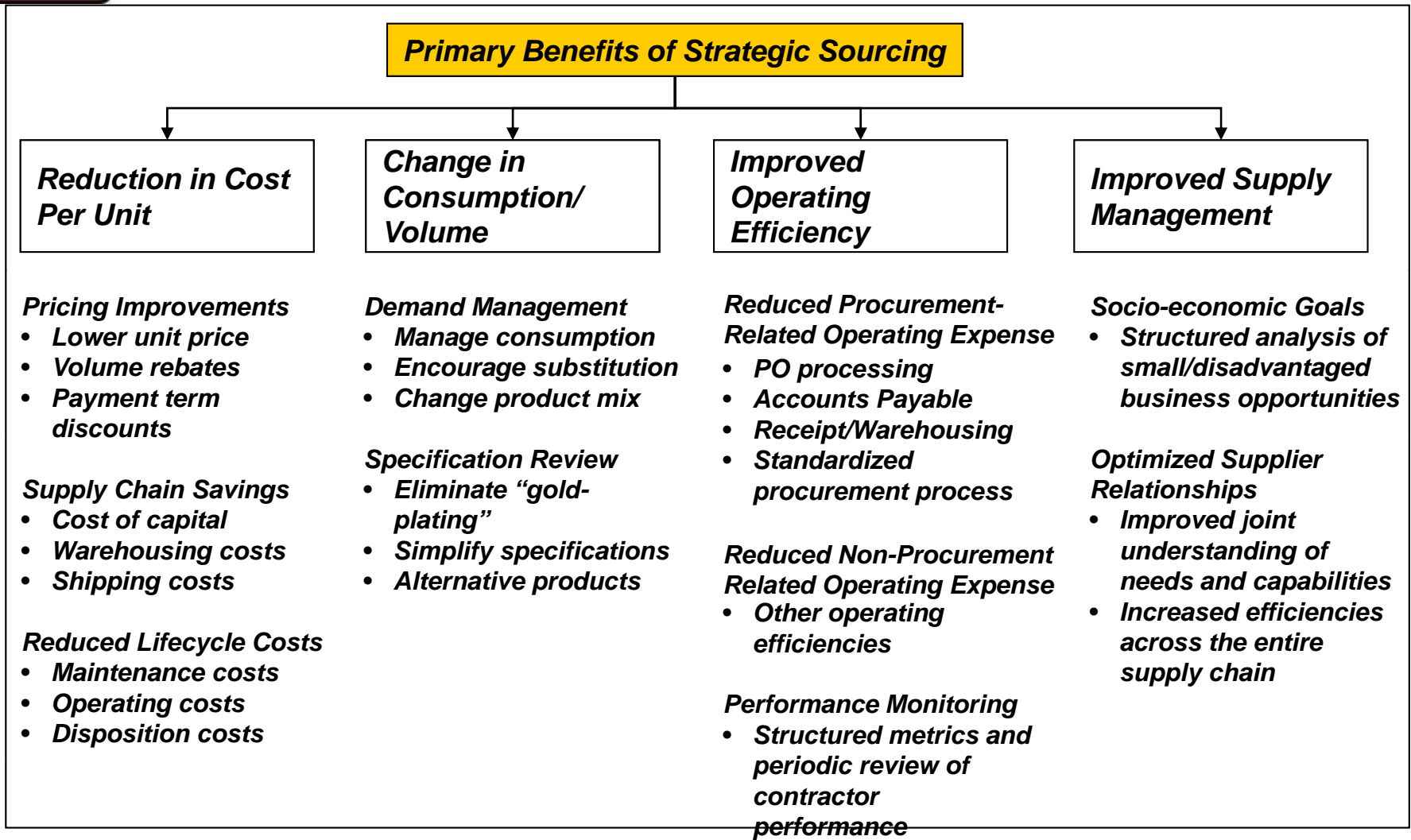
STRATEGIC SOURCING DEFINITION

<p>DEFINITION OF STRATEGIC SOURCING</p>	<p>Strategic sourcing is a <u>structured, analytical and collaborative process</u> for optimizing an organization's supply base while reducing Total Cost of Ownership and improving mission delivery</p>
<p>SUPPORTING DETAILS</p>	<p>Strategic Sourcing is:</p> <ul style="list-style-type: none"> • A process for systematically analyzing and developing optimal strategies for buying goods and services. • A data-driven, fact-based analysis to drive decision making rather than just “hunches” • A holistic process that addresses customer needs, market conditions, organizational goals and objectives, and other environmental factors • Based on market intelligence, and takes into account small business capabilities • Based on a cross-functional approach that involves multiple parts of an organization • About supporting an organization’s mission through procured goods and services
<p>COMMON MISCONCEPTIONS</p>	<p>Strategic sourcing is not:</p> <ul style="list-style-type: none"> • Leveraged buying • Bundling • A pre-conceived answer



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The benefits of strategic sourcing are numerous and go far beyond pricing improvements and leveraged buying





Over the past 20 years, commercial firms have successfully implemented Strategic Sourcing programs to generate significant savings and efficiencies

Strategic Sourcing has emerged as the standard best practice for private sector firms. Below are three examples of successful commercial Strategic Sourcing initiatives

Fortune 100 Manufacturer Uses Strategic Sourcing to Manage Supply Risk and Cost

- ***Facing an increasingly volatile supply market and inflationary environment for metals, this manufacturer needed to ensure continuity of supply while managing costs.***
- ***Utilizing Strategic Sourcing analytical techniques to analyze the metals supply chain and benchmark various pricing and hedging strategies, the company shifted its sourcing to suppliers further back in the supply chain to “lock in” the supply of metals***

Fortune 100 Information Technology Company Streamlines Worldwide Sourcing

- ***In the past, this firm had more than 60 disconnected procurement organizations managing nearly 5,000 production suppliers around the world.***
- ***Through implementation of Strategic Sourcing initiatives, the company saved \$5 billion over five years. It consolidated approximately 85% of its \$17 billion in production spend to 50 suppliers. And its e-procurement initiatives resulted in savings of \$377 million.***

Fortune 500 High-Tech Manufacturer Focuses on Supplier Relationships for Best Value

- ***The challenge for this high-tech manufacturer was to stabilize prices and ensure best value in a fast-changing and complex hardware components market.***
- ***The firm implemented a Strategic Sourcing program to look at all components. For the most critical components, the company determined that shifting from quarterly contracts to long-term supplier relationships was the optimal strategy resulting in larger volumes for suppliers, better prices, and standard hardware component.***



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Strategic Sourcing has now been endorsed and is officially prescribed for use across all Federal agencies

Federal Organization	Recent Activity and Guidance
General Accountability Organization (GAO)	<ul style="list-style-type: none">• Published reports recognizing the benefits of Spend Analysis and Strategic Sourcing as an Industry and Government Best Practice
Office of Federal Procurement Policy at OMB (OMB/OFPP)	<ul style="list-style-type: none">• Directive issued 5 May 2005 requires each Federal Agency and Department to:<ul style="list-style-type: none">- Implement Strategic Sourcing- Identify commodities for strategic sourcing- Report annually to OFPP/OMB on progress
Federal Chief Acquisition Officers Council (CAOC)	<ul style="list-style-type: none">• Formed Strategic Sourcing Working Group (SSWG) to lead and guide Federal strategic sourcing initiatives
Defense Procurement and Acquisition Policy office at OSD (OSD/DPAP)	<ul style="list-style-type: none">• Currently establishing a DoD Strategic Sourcing Governance Structure and process• Sponsored study on best sourcing practices for acquiring IT services



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The Federal Government has already begun to see the benefits of strategic sourcing

Federal Strategic Sourcing Successes

US Air Force

- **Established the Air Force Information Technology Commodity Council to manage all IT commodity buys for the Air Force**
- **Established standard desktop PC configurations, continually updated as part of an 18-month planning cycle**
- **Council's primary aim is to maximize the value of commercial IT product purchases by considering Total Cost of Ownership**
 - Includes factors such as life cycle management costs, cost of support services, and procurement complexities
 - Since 2004, the council has bought 216,000 PCs at a reported savings of \$61 million

US General Services Administration (GSA)

- **Established a Federal Strategic Sourcing Initiative focused on leveraging spend across the Federal Government**
- **Launched five commodity teams focused on common spend items across the government**
 - Wireless communications
 - Express document delivery services
 - Copiers
 - Printers
 - Office Supplies
- **Contracts have been awarded on several commodities; awaiting validation of savings**

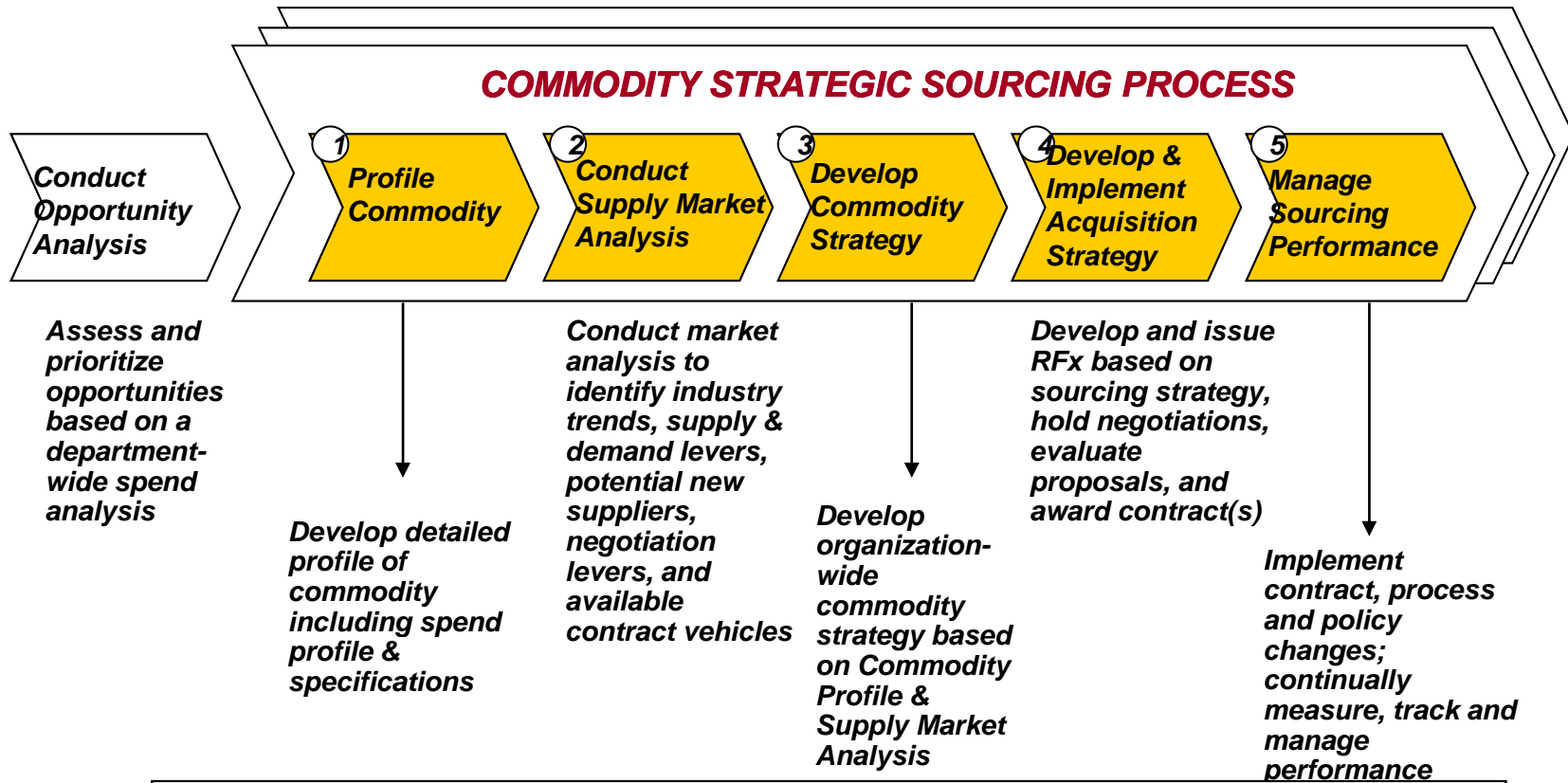
US Postal Service

- **Established commodity councils and conducts extensive price analysis:**
 - Savings plus cost avoidance over last five years is approx \$1.3 billion
 - Maintenance, repair, and operating supplies costs reduced:
 - Before: 75% local buys, multiple business arrangements, 1,000 suppliers
 - After: awarded two national contracts, standardized product selection, implemented e-buy, used reverse auctioning, saved \$30 million in FY04



DoD has adopted a well-defined and structured process for strategic sourcing that is rooted in fact-based analysis

STRATEGIC SOURCING PROCESS – HIGH LEVEL OVERVIEW



The term “Commodity” is used to refer to ALL acquired supplies or services, simple or complex



Strategic Sourcing and Small Business

Common Misconceptions

- ***Strategic Sourcing is exclusively about leveraging the government's purchasing volume***
- ***Strategic Sourcing is only about bundling purchases with one supplier as a means of negotiating the lowest price***
- ***Strategic sourcing favors big businesses that can deliver high volume***
- ***Small businesses are going to get left out in the cold***



Strategic Sourcing and Small Business

The Reality

- **Strategic sourcing and small business sourcing are not mutually exclusive propositions**
- **When applied correctly, strategic sourcing can actually help agencies identify entire segments of industry where small business can deliver the best value**



Strategic Sourcing and Small Business

Small Business Advantages In Strategic Sourcing

- **In areas where deep subject-matter expertise is needed, a small “niche” firm might offer more value**
- **When speed is of the essence, a small firm might be more nimble and responsive**
- **Small firms may offer more flexibility in customizing solutions and products**
- **The lower overhead of a small business can translate to more competitive prices**
- **Many of the most innovative and creative ideas originate in small entrepreneurial firms**



Strategic Sourcing: An Approach for Incorporating Small Business

