

# Strategic Sourcing of Services – A Federal Perspective

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Prepared by:

**Censeo Consulting Group**

# What is Strategic Sourcing?

## DEFINED BY

### Public Sector Strategic Sourcing Roundtable

(Session 4, January 13,  
2005)



## STRATEGIC SOURCING DEFINITIONS

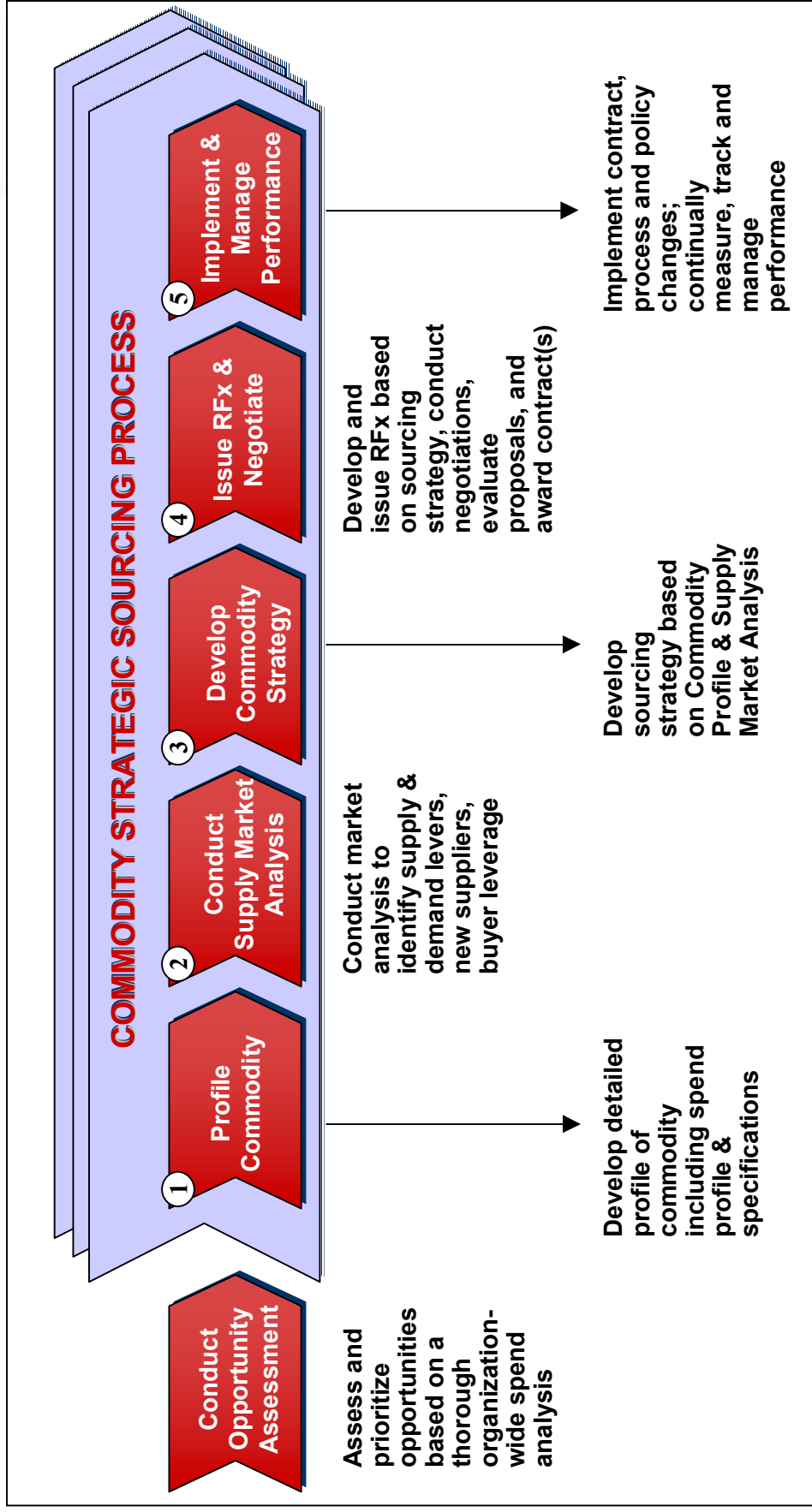
Strategic sourcing is NOT....an answer...it is NOT leveraged buying..

### Strategic Sourcing IS...

- **A PROCESS** for systematically analyzing and developing optimal strategies for buying goods and services.
- **DATA DRIVEN** – fact-based analysis to drive decision making rather than just “hunches”
- **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
- Inclusive of **CUSTOMER REQUIREMENTS**
- **A CROSS-FUNCTIONAL APPROACH**
- About **SUPPORTING AN ORGANIZATION'S MISSION** through procured goods and services
- About **DEVELOPING ORGANIZATION WIDE STRATEGIES**

# The Commodity Strategic Sourcing process is an integral component of Strategic Sourcing

## STRATEGIC SOURCING PROCESS – HIGH LEVEL OVERVIEW



## Services sourcing in the Federal government

### Recent Trends in Federal Services Sourcing

- Services have become the largest component of spend within Federal agencies
- The range of services being purchased has expanded
  - Suppliers are more and more integrated into government operations and performing inherently governmental functions (e.g. acquisition)
  - More and more services have been outsourced as a result of “Competitive sourcing” (or A-76 competitions)
- Services have received more scrutiny from oversight bodies because of issues related to inadequate planning, poor requirements definition, and lack of performance management

## What are Services?

**Services have evolved from stand alone service buys to include traditionally purchased materials with a services component & outsourced business processes**

- **Traditional Examples**
  - Temporary services
  - Consulting services
  - Building maintenance services
- **Newer Examples – previously purchased as materials**
  - Print capability (Printers & value-added services/maintenance)
- **Newer Examples – outsourced business processes**
  - Internal HR activities
  - Internal Accounting activities

**Services Sourcing has become even more complex and pervasive – Imperative is to examine all external buys and understand the services component**

# Challenges for Services Sourcing

## Five Main Challenges for Strategic Sourcing of Services

1. Defining Categories of Services
2. Identifying Expected Outcomes
3. Determining Pricing/Cost Drivers
4. Defining and Communicating Requirements
5. Supplier Evaluation Criteria

**Based on Censeo  
research and  
experience across  
many industries**

# 1. Defining Categories of Services

## Several factors are salient in the definition of services

- Internal use for the services procured and/or internal business processes supported
- Supply market capabilities & industry structure
- “Commodities” (previously described as “products” or “services”) with specific outcome measures

**May not have been thought of as services previously**

# Example - Defining Categories of Services

## Example of Services Category Definition

### Administrative Services

**Definition:** Administrative/Support Services is comprised of support functions such as translation, courier services, and word processing

#### Clerical Support Services

- Document Preparation
- Stenographic Services
- Transcription
- Information Retrieval
- Paper Shredding Services
- Filing Services
- Secretarial Support Services

#### Mail and Courier Services

- Courier and Messenger
- Mailing and Distribution
- Packaging Services
- Post Office Services
- Material Management
- Other Mail and Courier Services

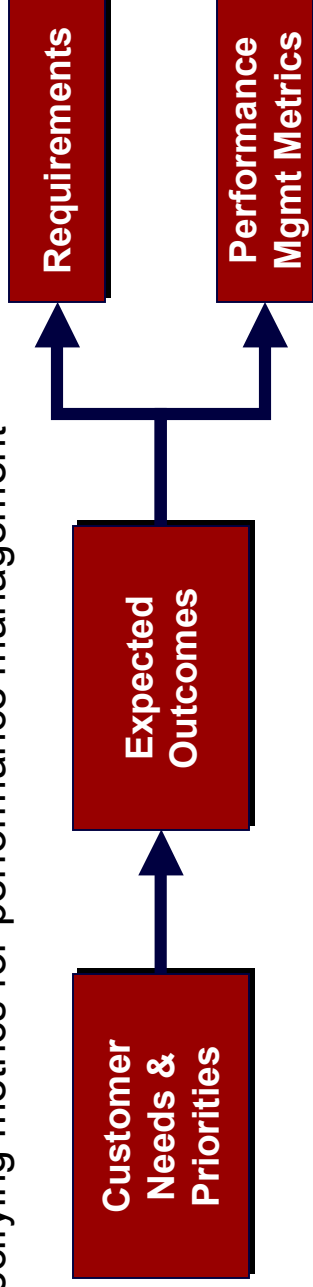
#### Language Support Services

- Translation and Interpreting Services
- Other Language Support Services

## 2. Identifying Expected Outcomes

### Identifying expected outcomes enables the development of robust requirements and performance management metrics

- Distinguishing between requirements vs. outcomes
- Clear understanding of customer needs and priorities in identifying desired outcomes
- Defined outcomes provide a clearer path to:
  - Determining requirements
  - Specifying metrics for performance management



# Identifying Expected Outcomes Example

## Example of Identifying Expected Outcomes – Roofing Services

### **ROOFING SERVICES COMMODITY STRATEGY – HIGH LEVEL EXAMPLE**

#### Previous Approach

- Roofing service contractors were selected based on their stated ability to meet a set of standard roofing requirements
- Actual contractor capabilities varied widely by region of the country
- Roofing requirements did not guarantee quality installation or the expected outcome
- No oversight or validation of installation quality
- **NET RESULT:** Poor quality roofs that leaked



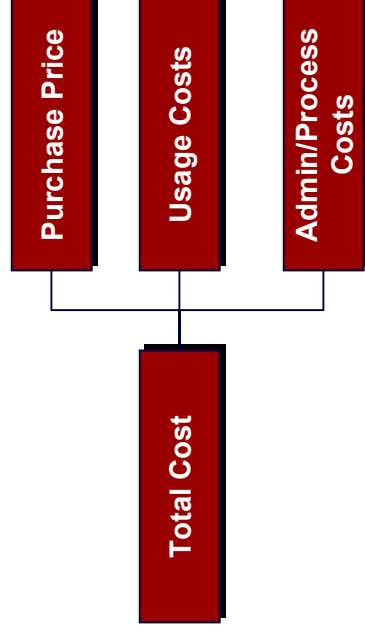
#### Strategic Approach

- Roofing service contractors were selected based on their ability to meet outcome based specifications – Guaranteed Leak Free Roofs
- Contractors were pre-qualified by a third party based on their ability to meet the outcome
- Third party inspectors certified their work
- **NET RESULT:** Leak Free Roofs

## 3. Determining Pricing/Cost Drivers

**A deep understanding of internal costs and supplier cost structures aids in the development of robust, actionable strategies**

- **Internal cost structure**

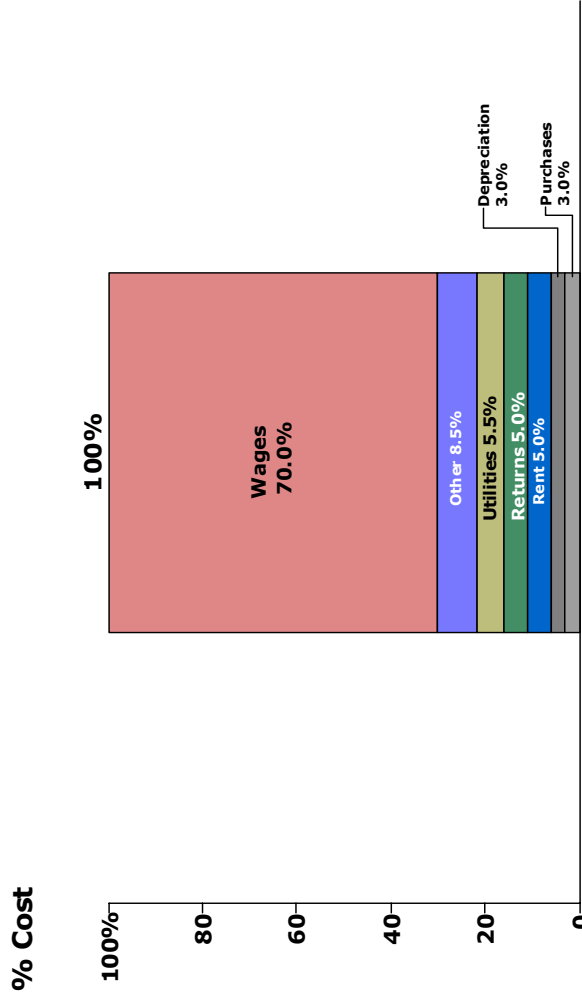


- **Industry economics & supplier costs**
  - Understand supplier cost elements AND cost drivers
  - Seek out ways to reduce supplier costs thru supply arrangement terms, joint business process improvement, etc ...

- Opportunities to drive down total costs – “actionable strategies”
- Seek out “win-win” supply arrangements

# Example – Determining Pricing/Cost Drivers

**CONTRACT LABOR SERVICES  
AVERAGE COST STRUCTURE  
(MAY 2004)**



**Temporary Support Services  
Average Cost Structure**

Source: IBIS, Temporary Help Services in the US, May 2004

## **COST STRUCTURE IMPLICATIONS**

- Wages paid constitutes approximately 70% (on average) of the cost structure of contract labor firms, which is driven primarily by the labor market supply-demand balance for a particular skill
- The remaining cost components present some opportunities for a balanced sourcing approach with vendors focused on process efficiencies



**The overwhelming dominance of wage rates in the cost structure of contract labor firms reinforces the importance of carefully managing demand (e.g. ordering the right skill level)**

## 4. Defining and Communicating Requirements

### Requirements definition and communication

- Keys to developing requirements:
  - Develop deep understanding of customer needs
    - Why do they buy?
    - What drives demand?
    - What are key priorities/needs?
  - Develop understanding of Industry and commodity characteristics
  - Determine optimal method for communicating requirements based on understanding of customer needs, along with understanding of industry

Should you use a  
**SOW, SOO,**  
**Performance-based**  
**SOW, other?**

There is no “one size  
fits all” approach...  
depends on how well we  
understand our  
requirements and the  
nature of the industry.

# Example - Defining and Communicating Requirements

## Domestic Delivery Services

### Key Program Objectives:

1. Establish a common procurement vehicle through which government agencies may procure and utilize Express and Ground Delivery Services
2. Lower the total costs associated with Express and Ground Delivery Services while achieving similar or improved service levels versus today
3. Utilize business intelligence to better support overall decision making and performance management

### Approach for Defining and Communicating Requirements:

- *Developed “hybrid” Statement of Objectives (SOO) / Statement of Work (SOW)*
  - RATIONALE:
    - SOO approach for areas such as “business intelligence” where suppliers have developed their own approaches and have unique ways of meeting the needs
    - SOW approach for delivery times, etc. where customers know in detail what they require

## 5. Supplier Evaluation Criteria

### **Align supplier evaluation criteria with user requirements and a detailed understanding of the supply market**

- **Intangible nature of services can make comparing suppliers difficult**
  - In addition to generic criteria such as technical approach, past performance, and staffing ability, other criteria specific to the service being acquired should be considered
- **Detailed knowledge of customer needs and priorities, combined with understanding of key differentiating factors among suppliers can be used to develop criteria**
  - Customer needs and priorities can be used to identify specific evaluation criteria
  - Additionally, sourcing goals and objectives can dictate which criteria to use and weighting to be assigned
  - Understanding of supply base capabilities, especially those that are relevant to your customers, can be critical to differentiating among suppliers
- **Advanced price analysis and evaluation methodologies and tools can be used to model total cost scenarios**

# Example - Supplier Evaluation Criteria

## Domestic Delivery Services

### Key Customer Needs and Supplier Differentiation Factors

- Ability to provide a full-service solution that meets all mandatory requirements and provides innovative additional services
- Ability to service diverse user requirements across a vast and fragmented user base

### Supplier Evaluation Considerations and Approach Used:

- Evaluated vendor capabilities to provide the required Delivery Services as well as complete Business Intelligence, Billing, and Customer Service solutions
- Rated suppliers utilizing subjective criteria based on their ability to meet the defined requirements for each section of the SOO
- Developed a comprehensive cost model to determine expected total annual costs built up from the service line item level
- Conducted the evaluation under a range of expected usage profiles to determine the impact to proposal rankings

### Total Cost Scenario model

	Estimated Delivery Service Costs by Service Type					
	Baseline	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
<b>Express Next Day Mid Morning</b>						
Letter	\$2,190,607	\$2,204,540	\$2,146,263	\$2,063,404	\$1,990,402	\$1,970,250
Standard Packages	\$3,956,752	\$3,894,244	\$3,789,534	\$3,644,933	\$3,530,250	\$3,480,387
Handweight Packages	\$0,767,282	\$7,893,943	\$6,098,726	\$5,934,197	\$5,708,337	\$5,620,442
Total Express Next Day Mid Morning						
FSSS Savings (%)		-26%	-40%	-51%	-56%	-58%
<b>Express Next Day Afternoon</b>						
Letter	\$26,107	\$48,474	\$19,119	\$10,441	\$26,596	\$26,201
Standard Packages	\$33,416	\$47,714	\$31,433	\$32,252	\$39,574	\$35,147
Handweight Packages	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Total Express Next Day Afternoon						
FSSS Savings (%)		-28%	-40%	-46%	-46%	-46%
<b>Express Second Day</b>						
Letter	\$15,194	\$19,659	\$15,593	\$15,091	\$12,693	\$12,172
Standard Packages	\$49,942	\$65,176	\$64,102	\$63,946	\$61,163	\$61,496
Handweight Packages	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Total Express Second Day						
FSSS Savings (%)		-35%	-40%	-41%	-46%	-46%
<b>Total Express</b>	<b>\$1,971,171</b>	<b>\$1,946,914</b>	<b>\$1,885,491</b>	<b>\$1,844,454</b>	<b>\$1,811,454</b>	<b>\$1,814,353</b>

## Questions?

Please send request by email to get a copy of the Censeo Best Practices Study “Organizing for Spend Management”

## Contact Info

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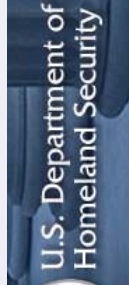
# Censeo Consulting Group Corporate Summary

**Censeo Consulting Group** helps organizations create maximum efficiencies throughout their supply chain by structuring optimal supply relationships based on a deep understanding of internal needs and supply markets.


## Censeo at a Glance

- **Focus in supply chain and procurement** – not a “general management” consulting firm - all facets of company including people, resources, intellectual capital built to provide supply chain and procurement consulting
- Serving Fortune 100 commercial clients and Federal government clients worldwide ...
- Staff with **deep expertise** in supply chain, sourcing and procurement
- Most **staff from** previous experience from large, **prestigious consulting firms** such as A. T. Kearney, and Booz Allen Hamilton
- Lean cost structure with low overhead in order to provide strategy consulting services at extremely competitive rates
- Strategic partnerships to deliver full life-cycle services

## Censeo Clients Include



# Censeo's sourcing and procurement expertise aligns with three core capability areas: Consulting, Training & Research

- 
- Supply Chain Strategy
  - Commodity Sourcing Strategies
  - Commodity Lifecycle Management
  - Sourcing Organization Design & Governance
  - Strategic Sourcing Program Management
  - Spend Analysis
  - eSourcing
  - Supplier & Sourcing Performance Management
  - Demand Management
  - Small Business / Supplier Diversity Strategies
  - Offshoring / Outsourcing
  - Commodity Market Intelligence
  - Supplier Discovery, Evaluation & Selection
  - Strategic Sourcing Benchmarking
- 
- Strategic Sourcing Learning Lab
  - Custom Training Programs
  - Online Strategic Sourcing Courses