EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
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MEMORANDUM FOR CHIEF ACQUISITION OFFICERS
CHIEF FINANCIAL OFFICERS
CHIEF INFORMATION OFFICERS

FROM: Clay Johnson III
Deputy Director for Management

SUBJECT: Implementing Strategic Sourcing

The federal government spends approximately $300 billion on goods and services each year, and federal agencies are responsible for maximizing the value of each dollar spent. Therefore, agencies need to leverage spending to the maximum extent possible through strategic sourcing. Strategic sourcing is the *collaborative* and *structured* process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently. This process helps agencies optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar spent.

Each agency's Chief Acquisition Officer (CAO), Chief Financial Officer (CFO), and Chief Information Officer (CIO) are responsible for the overall development and implementation of the agency strategic sourcing effort, which begins with a spend analysis and the identification of commodities for which strategic sourcing should be implemented. The CAO shall lead the CAO/CFO/CIO development team and will take the following actions:

1. Not later than October 1, 2005, the CAO shall identify no fewer than three commodities that could be purchased more effectively and efficiently through the application of strategic sourcing, excluding software that could be purchased under the SmartBuy program. Agencies may include existing strategic sourcing efforts for this purpose.

2. The CAO shall lead the collaborative development of an agency-wide strategic sourcing plan in coordination with the agency CFO, CIO, representatives from the agency's Office of Small and Disadvantaged Business Utilization, and other key stakeholders, as appropriate. The plan should reflect the application of sound program and project management principles. At a minimum, the plan should include the following elements:

a. Strategic Sourcing Governance – A charter should be developed outlining the members, roles, responsibilities, and operations of an agency-wide Strategic Sourcing Council and any commodity councils to be formed.

b. Strategic Sourcing Goals and Objectives – The Strategic Sourcing Council should establish annual strategic sourcing goals and objectives, by fiscal year. These goals and objectives should include existing strategic sourcing efforts, as well as prioritizing new initiatives. In addition to cost and performance goals, any strategic sourcing plan must be balanced with socio-economic goals for small businesses, small disadvantaged businesses, women-owned small businesses, veteran-owned businesses, service-disabled veteran-owned businesses, HUB-Zone and preference programs (e.g., Javits-Wagner-O'Day), and others, as appropriate.

c. Performance Measures – The agency Strategic Sourcing Council should establish agency-wide performance measures and reporting requirements in order to monitor and continuously improve the strategic sourcing program.

d. Communications Strategy – The Strategic Sourcing Plan should also include a communication strategy that clearly conveys senior management's commitment to the effort, describes the scope of the effort, and identifies any organizational changes. The communications strategy should also include steps to make agency employees aware of awarded strategic sourcing contracts and how they are to be used.

e. Training Strategy – The plan should identify actions necessary to educate agency personnel to support effective and efficient strategic sourcing implementation and management.

3. Beginning in January 2006, the CAO shall report annually to the Office of Federal Procurement Policy (OFPP) regarding, at a minimum, reductions in the prices of goods and services, reductions in the cost of doing business, improvements in performance, and changes in achievement of socio-economic acquisition goals at the prime contract and, if possible, the subcontract level. Agencies shall develop methodologies for establishing baseline data and subsequent changes to this baseline and shall consistently apply this methodology throughout the strategic sourcing process.

Using information from the agency reports and other data sources, OFPP may identify several commodities that could be strategically sourced government-wide, and will establish an interagency structure for managing the acquisition of these commodities.

To facilitate the development of a strategic sourcing community and build a subject matter expert network, agencies shall identify a strategic sourcing point of contact. Please submit the person's name, title, telephone number, and e-mail address to Lesley Field at OFPP by July 1, 2005 (lfield@omb.eop.gov).

Maximizing value for taxpayers is a top priority for OMB, and I look forward to working with the acquisition community on this important initiative.