

## Strategic Sourcing Requirements

### Guiding Principles

- Improving acquisition through strategic sourcing.
- Taking advantage of purchasing opportunities by continually reviewing current needs against market conditions.
- Requiring vendors to provide sufficient pricing usage, and performance data to enable the government to ensure we are receiving the best prices for commonly used goods and services.
- Ensuring that the Government gets credit for all activities executed against each strategic sourcing vehicle.
- Ensuring that strategic sourcing vehicles offer tiered pricing or other appropriate strategies, to reduce prices as cumulative volume increases.
- Ensuring that Department of Energy (DOE) cost savings and cost avoidance data from strategic sourcing activities are recorded correctly.

### Applicable References

#### Federal Acquisition Regulation (FAR) Parts

- Part 8 Required Sources of Supplies and Services
- Part 16 Types of Contracts
- Part 19 Small Business Programs

#### DOE Acquisition Guide Chapter

- Part 16 Types of Contracts

#### Office of Management and Budget (OMB)

- OMB Memorandum M-13-02 dated December 5, 2012, Improving Acquisition through Strategic Sourcing
- OMB Memorandum M-09-25 dated July 29, 2009, Improving Government Acquisition
- OMB Memorandum dated May 20, 2005, Implementing Strategic Sourcing

#### Additional DOE guidance

- Policy Flash 2014-18 dated February 26, 2014, Complex-Wide Strategic Sourcing – Update
- Policy Flash 2014-16 dated February 12, 2014, Standardized Cost Savings Definitions and Reporting Template – Update
- Memorandum from Patrick M. Ferraro dated October 31, 2013, Revised Fiscal Year (FY)

#### 2014 Critical Few Performance Measures

- Policy Flash 2013-73 dated August 7, 2013, Utilization of General Services Administration Federal Strategic Sourcing Initiative Blanket Purchase Agreements for Office Supplies
- Memorandum from Daniel B. Poneman dated July 25, 2013, Utilization of General Services Administration Federal Strategic Sourcing Initiative Blanket Purchase Agreements for Office Supplies
- Policy Flash 2012-67 dated September 21, 2012 and Memorandum from Paul Bosco dated September 20, 2012, Acquisition Savings Reporting Template Guidance
- Memorandum from Paul Bosco and Joe Waddell dated May 29, 2012, Utilization of the General Services Administration's Federal Strategic Sourcing Initiative Blanket Purchase Agreements
- Memorandum from Patrick M. Ferraro dated September 9, 2011, Sources for Office Supplies
- Memorandum from Daniel B. Poneman dated August 27, 2010, Strategic Business Initiatives
- Policy Flash 2010-42 dated April 8, 2010, Use of New Strategically Sourced Blanket Purchase Agreement for Domestic Delivery Services with United Parcel Services

#### **Purpose**

This document defines the Energy-Wide Strategic Sourcing (EWSS) Program, its features, functions, and objectives, and the steps necessary to institutionalize the Program within the DOE. The EWSS will build on the existing capabilities, activities, and organizations already in place at DOE whenever possible.

#### **Overview**

Strategic sourcing is a structured data driven way to buy goods and services. Strategic sourcing is a branch and tenet of Supply Chain Management; strategic sourcing represents a shift from buying tactically, on an as-needed basis, to buying collaboratively, with well-planned service and supply acquisitions that consider spending trends and future requirements of the entire enterprise as opposed to those of a single entity. Strategic sourcing solutions can range from implementing supplier partnerships, to establishing centers of excellence (based on region or core competencies), to leveraging strategic business arrangements that garner results for the enterprise. By creating an environment of data transparency and instilling a culture of strategic decision-making and collaboration, DOE can acquire strategically sourced goods and services that maximize procurement dollars and program support. Strategic sourcing is not simply about reducing the number of DOE contracts or reallocating spending; it is about working collectively and operating as a single, unified acquisition workforce.

Instead of purchasing something whenever a need arises, “strategic sourcing” means taking a step back and determining the best way to purchase a good or service on an ongoing basis. For common goods and services purchased across an agency or across the government (such as security guard services or express shipping), it entails working with other offices to share knowledge, understand suppliers, and determine a coordinated purchasing approach.

Strategic sourcing often means pooling multiple purchases to leverage the purchasing power of an agency and “going to market” as a single buyer. Even in cases where it makes sense to purchase as independent buyers, sharing knowledge and resources often generates enormous efficiencies.

## **Background**

Given the nature of the Department’s business model, the opportunities for strategic sourcing are different at the Federal and contractor levels. DOE, at the Federal level, spends approximately \$24-\$25 billion on the acquisition of goods and services with close to 80-85% of those dollars obligated for site and facility management contractor (FMCs) services. The FMCs, in turn, sub-contract a large portion of those dollars for a wide-range of commercial goods and services to fulfill their contractual responsibilities. At the Federal level, many of the largest opportunities relate to strategic purchasing of commodities with fewer opportunities for strategic sourcing of commodities. Accordingly, within DOE, there are substantially greater opportunities to leverage the acquisition of commonly used goods and services at the contractor level than at the Federal level.

In 1995, DOE's Senior Procurement Executive (SPE) facilitated the establishment of a strategic sourcing program at the contractor level, known as the Integrated Contractor Purchasing Team (ICPT) on a test basis to leverage the buying power of the FMCs. This effort was expanded with the establishment of the Supply Chain Management Center within NNSA and EM. The strategic sourcing pilot program was successful and was officially chartered by the SPE in 1997. In recognizing the success of the NNSA’s SCMC, the Office of Science (SC) stood up an Operations Improvement Council (OIC) in 2011. The OIC capitalizes on processes already in place, like the ICPT and the SC Contractors’ Purchasing Council strategic sourcing efforts, while expanding cost improvement opportunities beyond acquisition to areas including human resources, facilities operations and information technology.

With the issuance of the May 20, 2005 memorandum from the OMB (Memorandum from OMB dated May 20, 2005, Implementing Strategic Sourcing), federal agencies were directed to establish formal strategic sourcing programs. The Chief Acquisition Officer (CAO), Chief Financial Officer (CFO), and Chief Information Officer (CIO) are responsible for the overall development and implementation of the agency's strategic sourcing programs with the CAO designated as the lead for this initiative. In addition, OMB Circular A-123, Appendix B, prescribes requirements pertaining to strategic sourcing and the Government-wide Purchase Card Program.

The Deputy Secretary re-emphasized the importance of strategic sourcing, especially Supply Chain Management (Memorandum from Daniel B. Poneman dated August 27, 2010, Strategic Business Initiatives). He noted NNSA’s successful implementation of Supply Chain Management Center’s strategies and the potential benefit of expanding this initiative across the Department by continuing to look at areas for improvements.

The Deputy Secretary also issued a Memorandum on July 25, 2013 that requires all office supplies available under GSA contracts to be purchased through the GSA, unless it can be demonstrated that doing so would not be cost-effective or efficient. This mandate does not require the termination of existing orders for office supplies nor does it preclude the use of DOE's AbilityOne Supply Stores, Paperclips, Etc., (Forrestal Building and Germantown).

A new OMB initiative on Improving Acquisition through Strategic Sourcing was established through the OMB Memorandum M-13-02 dated December 5, 2012. This memorandum required the designation of Strategic Sourcing Accountable Official (SSAO), authorized to act on the agency head's behalf, to coordinate internal strategic sourcing activities and participation in government-wide efforts.

The OMB memo M-13-02 also established a Strategic Sourcing Leadership Council (SSLC) that is chaired by the Administrator for the Office of Federal Procurement Policy (OFPP). The SSLC is leading the government's efforts to increase the use of strategic sourcing by developing and promoting a commodity management approach to the government's acquisition of goods and services. The SSLC is tasked with recommending to OMB commodity-specific management strategies that ensure the Government gets the best deal possible.

Additionally, the OMB Memorandum M-13-02 requires each agency to promote, to the maximum extent practicable, sound strategic sourcing practices within their agencies. For example, each SSLC agency shall establish an internal cross-functional strategic sourcing council to oversee the agency's related activities. These efforts include, but are not limited to; issuing and enforcing mandatory use policies for government wide and agency wide strategic sourcing solutions to the extent appropriate, providing acquisition and management data to the General Services Administration (GSA) and other executive agents in support of the development of new solutions, and tracking spending and savings information for use by OMB, as further directed by the OFPP.

### **Characteristics of Strategic Sourcing Acquisition Vehicles**

Strategic sourcing is the process of reviewing requirements to determine if an existing strategic agreement is available for use or if one should be put in place. The specific characteristics of strategic sourcing contractual vehicles will vary according to the product or service being sourced. At a minimum, government-wide vehicles should:

- Reflect input from a large number of potential agency users – especially the largest likely users – regarding customer demand for the goods and services being considered, the acquisition strategy (including contract pricing, delivery and other terms and conditions, and performance requirements), and the commodity management approach;
- Ensure that the Federal government gets credit for all activities provided under that vehicle, regardless of payment method, unless the activities are identified with other government contracts, so that volume-based pricing discounts can be applied;

- Include tiered pricing, or other appropriate strategies, to reduce prices as cumulative volume increases;
- Require vendors to provide sufficient pricing, usage, and performance data to enable the government to improve its commodity management practices on an ongoing basis; and
- Be supported by a contract administration plan that demonstrates commitment by the executive agent to perform active commodity management and monitor vendor performance and pricing changes throughout the life of the contract to ensure the benefits of strategic sourcing are maintained.

In order for an acquisition activity to be considered “Strategic Sourcing”, it must follow the basic steps as outlined in Policy Flash 2012-67 dated September 21, 2012 and Memorandum from Paul Bosco dated September 20, 2012, Acquisition Savings Reporting Template Guidance.

### **Requirements**

As a contracting officer/specialist/business advisor, you are responsible for:

- determining the best alternative for meeting your customer’s mission needs;
- ensuring purchased supplies or services meet your customer’s minimum quality requirements;
- ensuring that supplies or services are received in time to fulfill those needs;
- ensuring that all items are purchased at a fair and reasonable price; and
- selecting contractors that have track records of successful past performance.

While it is imperative the supplies and services you purchase satisfy your customer’s requirement, you must also:

- develop a business arrangement that makes good business sense;
- promote competition;
- minimize the administrative costs associated with the purchases that you make;
- conduct business with integrity, fairness, and openness; and
- fulfill public policy objectives.

One key step in the contracting process is market research. Part of the market research will be looking for existing vehicles that may be used to satisfy the requirements. One potential solution is strategic sourcing vehicles. More information on Federal Government Strategic Sourcing can be found at <https://www.strategicsourcing.gov>.

The Department strongly supports utilization of: (1) the GSA Blanket Purchase Agreements (BPAs) under the Federal Strategic Sourcing Initiative (FSSI) and (2) the DOE's Ability One Supply Stores, Paperclips, ETC. (Forrestal Building and Germantown). More information on the FSSI can be found at <http://www.gsa.gov/portal/content/112561>.

The Department also utilizes the GSA SmartPay2 Purchase Card Program. Cardholders are encouraged to use GSA Advantage (<http://www.gsaadvantage.gov>) to conduct quick and easy market research, review delivery options, and order already negotiated low-price items. GSA Advantage allows customers access to millions of commercial products and services and thousands of approved commercial vendors, including green products, small businesses, AbilityOne, National Industries for the Blind, and Federal Prison Industries (also referred to as UNICOR), before placing an order on-line.

The Department also strongly encourages the use of GSA Global Supply, a GSA wholesale supply source. GSA Global Supply is a one-stop source for many support needs. When ordering through GSA Global Supply, the cardholder is assured of regulatory compliance, one bill, and global delivery from a reliable government source. There is no need to comparison shop thanks to requisition-based ordering. GSA provides full accountability from order placement through delivery and billing. The website for GSA Global Supply is [https://www.gsaglobalsupply.gsa.gov/advantage/main/start\\_page.do?store=FSS](https://www.gsaglobalsupply.gsa.gov/advantage/main/start_page.do?store=FSS).

To see a complete listing of strategic sourcing vehicles currently in place at DOE, please go to the following link: <http://energy.gov/management/office-management/operational-management/procurement-and-acquisition/strategic-sourcing>.

### **Strategic Sourcing Reporting Procedures and Processes**

As part of the OMB Acquisition Savings Initiative and the DOE Strategic Sourcing Program, a key challenge has been to address the requirement of reporting cost savings and cost avoidance data. In order for DOE to fully comply with reporting requirements, the SPE has directed the mandatory use of the reporting template outlined in Policy Flash 2012-67 dated September 21, 2013 and Memorandum from Paul Bosco dated September 20, 2012, Acquisition Savings Reporting Template Guidance to report cost savings and cost avoidance data.

The report is a three step process; 1) Select a saving type, 2) Select Savings Methodology (In Order of Preference), and 3) Enter into Report. A key element in Step 2 is that the savings methodology is listed in order of preference. When you move down in the order of preference you are acknowledging the inability to identify savings in any higher ranked methodology for the transaction(s) being recorded. Lower-priority savings methodologies should not be used merely to maximize reported savings, if a higher-ranked savings method applies.

Policy Flash 2014-16 dated February 12, 2014, Standardized Cost Savings Definitions and Reporting Template – Update provided the following additional guidance to further clarify strategic sourcing guidance:

- All Government purchase card rebates and transactions are considered strategic sourcing savings.
- If a credit card is issued as part of the agreement under the NNSA Supply Chain Management Center (SCMC) or other programs use a corporate credit card and it applies to more than one site, all rebates and transactions are considered strategic sourcing savings.
- The savings associated with utilizing all existing Federal Strategic Sourcing Initiatives (FSSI) Blanket Purchase Agreements (BPA) count toward strategic sourcing savings.
- The savings associated with utilizing all other existing GSA or NASA schedules (e.g., FSS, GWAC, MAS, and NASA-SEWP) delivery and task orders (IDIQs, BPAs) count toward strategic sourcing savings.

### **Setting Strategic Sourcing Spend and Savings Goals**

Beginning of each fiscal year, a goal for strategic sourcing savings (cost avoidance) is established for each of the major programs (NNSA, SC, EM, Other) Federal Procurement Operations Offices and M&O/FMC Contractor Sites. The process requires each location to develop a projection of their upcoming annual procurement budget and to then decrement this anticipated spend by any potential purchases that will not be applicable as procurement actions. This provides the Federal and Contractor Sites with what is referred to as Actionable Spend, or the amount that can be targeted towards Strategic Sourcing efforts.

The current strategic sourcing savings goal of 4% is applied to the Actionable Spend to calculate the strategic sourcing cost savings target amount. Heads of Contracting Activities (HCAs) and Procurement Directors (PDs), in collaboration with their Contractor Supply Chain Council (CSCC) representative, provide on a yearly basis an estimate of their total actionable spend and savings target amounts for the coming fiscal year. At this time they would provide justification for any mitigating circumstances on why they believe they cannot achieve the 4%, if applicable. Achievement against the goal is reported to CFO/PA&E in the Performance Measures Management system on a quarterly basis as well as to OMB/OFPP in the annual AcqStat report.

### **Critical Few Performance Measures**

In accordance with Memorandum from Patrick M. Ferraro dated October 31, 2013, Revised Fiscal Year (FY) 2014 Critical Few Performance Measures, each Procurement Office is required to report their Strategic Sourcing Savings as a percentage of total spend on a semiannual basis. This reporting requirement is in addition to the above mentioned strategic sourcing reporting procedures.

**Increasing Small Business Opportunities**

To the maximum extent practicable, all strategic sourcing opportunities shall seek to increase participation by small businesses. To that end, all proposed strategic sourcing agreements must baseline small business use under current strategies and set goals to meet or exceed that baseline under the new strategic sourcing vehicles.