Buying as One
Category Management Lessons From the United Kingdom

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The U.S. federal government spends about $500 billion a year on goods and services. More than half of this amount is for goods and services common across federal agencies, such as training, overnight delivery services, copier machines, and travel services. However, these common items are often purchased individually by more than 3,300 buying offices and over 40,000 contracting officers. For example, the Office of Management and Budget in 2016 noted that agencies spend more than $1 billion a year on mobile devices and service contracts, and that: “Almost all of that spending is paid to four carriers, yet the Federal Government manages over 1,200 separate agreements and buys more than 200 unique services plans for voice, data, and text capability.” As a result, the federal government does not leverage its buying power as a large customer, and vendors constantly bid on redundant work.

Category management—a purchasing strategy adopted by the private sector three decades ago—organizes spending on common goods and services across an enterprise into defined categories, such as travel or commercial software. By “buying as one,” the Office of Management and Budget projects that the federal government can avoid up to $18 billion in unnecessary spending by 2020.

The U.S. government began its category management initiative in 2014, and continues to designate agency adoption of this approach as a high priority. The United Kingdom began its category management initiative in 2010 and its greater maturity offers some useful lessons on how to increase adoption and avoid potential missteps. Furthermore, both the U.S. and U.K. efforts offer useful perspectives, and insights to other governments—states, localities, and other countries—as they consider their own category management initiatives.

We hope these insights and recommendations provide government leaders a roadmap to help improve purchasing practices in support of their agencies and missions.
EXECUTIVE SUMMARY

Category management organizes procurement spending into categories of goods and services available from the same or a similar supplier base. It is a continuous, market-facing, end-to-end process that encompasses all aspects of spending, from sourcing to lifecycle management, impacting the total procurement expenditure of an entire organization. Category management enables spending to best deliver the organization’s mission strategy.

Like many successful management reforms, procurement transformation in the United Kingdom beginning in 2010 was precipitated by an event that demonstrated the futility of maintaining the status quo: the 2008 global financial crisis.¹ Hastened by deep government spending reductions, the 2010 transformation was the latest and most effective and sustained U.K. government procurement reform in a succession stretching back decades (see Appendix I), all aimed at improving the efficiency and effectiveness of government buying and the way public services were provided.

This report examines how the U.K. government enacted a category management procurement strategy that refined and expanded an operational framework that had been years in the making. The report also draws lessons from the U.K.’s procurement transformation for the U.S. government’s more recent category management initiative, launched in 2014, as well as for other governments who may have an interest in pursuing this strategy.

Both the U.K. and U.S. governments focused category management on governmentwide spending for commonly purchased goods and services, such as desktop computers, telecommunication services, electrical power, office supplies, and travel. In the United Kingdom, this approach has enabled the government to aggregate demand to approach suppliers as a single whole-government buyer, with expansive bargaining power, as opposed to multiple agencies duplicating purchases of the same goods and services at widely varying prices. This report draws parallels between the evolution and implementation of the two programs.

The U.K. Approach to Category Management

Facing significant budget cuts, the U.K. government created a new Cabinet Office organization, the Efficiency and Reform Group, to drive the government's cost-cutting strategy. This Office combined under one roof for the first time the management of procurement, IT and other functions.² It created the Government Procurement Service (GPS) to serve as the government's central procurement organization, with greater power to mandate government-spending behavior than predecessor organizations.

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² The U.K. Cabinet Office's Efficiency and Reform Group oversaw government expenditure, IT policy and strategy, procurement, property and a number of other areas.
GPS employed category management to reduce costs and improve performance. The Efficiency and Reform Group also stood up the Government Digital Service to assist in moving to digital delivery of government services. Working separately and together, GPS and the Digital Service used procurement strategies, including category management, to deliver targeted IT policy outcomes, for example:

- Breaking up monolithic contracts held by global IT companies
- Modernizing government IT and moving to cloud computing
- Transforming public services for digital delivery

These IT policy achievements also helped attain the governmentwide procurement goal of increasing spending with small and medium-size businesses, especially those in the vibrant U.K. national cloud computing and digital markets.

Spending controls imposed in 2010—including reduction of spending on common goods and services by 25 percent—enabled the Cabinet Office to challenge departments on how they constructed contracts, their size, and the commercial rationale for awarding and extending them. The controls process collected supplier information that supported category management, aiding departmental chief information officers, and later the Digital Service, in driving cloud adoption and provision of services online. Spending controls also aided the initiative to disaggregate massive IT outsourcing contracts. The Digital Service used spending reviews to challenge proposed IT expenditure on any project that didn’t include or support cloud hosting and eventual digital delivery. Disaggregating monolithic IT contracts with global suppliers into multiple, smaller deals helped create opportunities for small and medium-sized businesses to enter or grow in the government market.

Managing common spending in categories gave the GPS and its customer agencies insight into and understanding of the markets within which they bought and the suppliers from which they purchased. As an initial step in category management, GPS developed an inventory of total annual U.K. public sector procurement spending, resulting in the first-ever accurate, comprehensive accounting of such spending by agency, category, and supplier.

GPS analyzed the data in the inventory and implemented a management system covering 95 percent of central agency procurement spending, with dashboards for every agency refreshed monthly. Armed with spend analytics, category teams made up of GPS market and supplier experts and agency staff could study in detail the supply base for any category of government spending.

For the first time, government knew nearly as much about its spending as its suppliers did. As a result, government departments began managing spend in categories organized to reflect markets, not the internal organization of government. The government also began working with suppliers in completely different ways. Reducing the time spent on sourcing—creating solicitations, collecting and evaluating bids—and increasing resources for research and managing contracts and suppliers. Freed resources could then focus on expanding market and supplier intelligence to illuminate supply networks and identify sources of value and risk and cost drivers.

In addition to spend management, knowing more about how markets functioned—for example, what drove supplier costs or enabled distribution and logistics efficiency—increased the government's buying efficiency. In 2011, GPS procurement lead time had averaged 236 days; by 2013, it had dropped to 72 days.
The U.S. Approach to Category Management

As in the United Kingdom, the U.S. government’s adoption of category management was preceded by procurement initiatives that had not had a significant impact on procurement costs or performance. A strategic sourcing effort launched in 2005 led to limited efficiencies in some agencies that consolidated selected common purchases, such as office products and copy machines. In 2014, the Office of Management and Budget (OMB) launched a governmentwide category management program built on the strategic sourcing initiative intended to bring the full range of common procurement spending under management.

Enforcement mechanisms had been lacking in the strategic sourcing initiative, but the category management program created and used them to drive agencies to move common spending onto specific “best-in-class” governmentwide contracts. Embedding the program as one of OMB’s statutorily required cross-agency priority goals, and ensuring commitment to it by a small team of dedicated career management experts, combined to enable category management to continue after the 2017 presidential transition.

A governmentwide Category Management Leadership Council created in late 2014 was comprised of representatives from the largest spending agencies: Defense, Energy, Health & Human Services, Homeland Security, Veterans Affairs, General Services Administration (GSA), and NASA. In addition, the chief financial officers from each of the 24 largest agencies designated single points of contact to coordinate governmentwide category management initiatives.

More than $270 billion in common annual contract spending was allocated among 10 “super categories.” These include areas such as travel, facilities construction, medical supplies, and transportation services. A senior executive was designated as the category manager for each. These teams were staffed with about 350 people from 46 departments and agencies, who identify performance metrics and talk with top suppliers in their respective categories.

Beneath the 10 “super categories” are 50 subcategories. Each of the 10 governmentwide categories is governed by a team and is managed from one or more executive agent agencies. These agencies provide category managers. Category and subcategory managers develop market intelligence and buying strategies, and identify the best contract vehicles.

In addition, GSA created an online Acquisition Gateway, where agency acquisition officers can find side-by-side comparisons of governmentwide contracts, connect with one another, and explore category “hallways.” The hallways display category-related articles, templates, market-research tools, prices-paid data, and other information. Members of the public can access the site, but much of its content is viewable only by federal employees.

At the strategic level, OMB’s administrator of Federal Procurement Policy partnered with other policy officials, including the federal chief information officer and the commissioner of GSA’s Federal Acquisition Service, to issue joint guidance to agencies on the road forward in each of the different categories.
This initiative was carried forward into the current President’s Management Agenda, which set performance targets to be achieved by fiscal year 2020, including:

- Cumulative cost avoidance of $18 billion
- A cumulative 60 percent of common spending managed under category management principles
- A cumulative 40 percent of addressable spending on best-in-class contracts
- A cumulative 13 percent reduction in the number of unique contracts

Six Key Insights and Recommendations for the U.S. from the U.K.’s Category Management Initiative

The U.K.’s initiative has been in place longer and is more mature than the U.S. effort. The U.K.’s pioneering experiences offer a potential roadmap for the U.S. and other governments—national, state, or local—to get started, as well. Following are six key insights and recommendations drawn from the U.K. program that may help the U.S. and others’ category management initiatives.

1. To ensure the category management initiative is sustainable, it should be integrated into a broader governmentwide procurement strategy.

   The U.K.’s category management initiative gained strength and compliance in part because it was the operational framework for achieving a broader transformation of the U.K. government’s procurement system. This comprehensive procurement transformation was powered by a unified efficiency and effectiveness strategy that both housed and reinforced category management and built stakeholder cooperation. As part of its broader procurement strategy, the U.K. effort started with an inventory of existing contracts and market intelligence gathering, which informed the effective implementation strategy. The United Kingdom also invested in developing skills in market and supplier intelligence collection, analytics, supply chain, value analysis, and supplier relationship management.

Recommendation One

Senior administration leaders should work with Congress to jointly pursue—along with the Category Management Leadership Council and the other interagency management councils—a more centrally-led and outcome-focused approach to implementation of category management as a part of a broader strategic transformation of the federal acquisition system.

2. Executing a governmentwide procurement strategy takes empowered, persistent leadership.

   Sweeping and deep government management change, such as procurement transformation, requires both political sponsorship and powerful executive leadership. In the U.K., the 2008 financial crisis guaranteed political support for government spending cuts. But it took the vision and relentlessness of the leaders of the Efficiency and Reform Group, the Government Procurement Service, and the Digital Service to frame that imperative with category management, digital government, and civil service reform initiatives.
Recommendation Two
Following on Recommendation One, OMB and GSA should work with Congress and agency leaders to muster support, leadership, and governance for a governmentwide procurement strategy that drives broader and faster adoption of category management, ties it more closely to mission and policy goals, and integrates it with other acquisition reforms into a single enterprise procurement strategy.

Using a strategic supplier management approach can result in greater value from suppliers that contract with multiple agencies.
The U.K. government has adopted a stringent performance monitoring and reporting scheme for suppliers that hold a significant number of contracts with multiple government agencies. Identifying, monitoring, and managing the performance of government’s largest multi-department providers under this strategic supplier management program has resulted in better data and enhanced negotiating power for the government. In addition, bringing in industry executives for temporary tours of duty as Crown Representatives to participate in this program supports government procurement staff with business experience and insight.

Recommendation Three
OMB and GSA should coordinate agency efforts to implement purposeful, management of strategic U.S. cross-government suppliers. Adopting such a strategy could help enhance a consistent approach to large, longtime suppliers, and improve the negotiating power and business acumen of U.S. category teams and procurement staff. Designating a corps of industry executives to support such a program would add experience and knowledge to support the effort.

Counting subcontracts enables better visibility, oversight, and deployment of spending with small businesses.
The U.K. government has set a socio-economic goal of spending 33 percent of its contract dollars with small and medium-size enterprises (SMEs) by 2020. However, the U.K. government’s SME goals include spending that goes directly to SMEs as well as indirectly to those that work in the supply chains of larger businesses. While accounting for these subcontract dollars is complicated, SME initiatives by the U.K. government have enabled improved oversight and better deployment of spending.

Recommendation Four
While the U.S. category management program currently focuses on prime vendor dollars, counting subcontracts could improve small business spend management and outcomes and illuminate supply chain challenges and opportunities.
Leveraging uniform usage data and standardizing on fewer versions of common goods can drive savings.

This was exemplified in the U.K. in its approach to the software category which:

- Standardized software data
- Used spend analysis to negotiate with resellers and publishers as a single government buyer
- Created a government-wide software exchange
- Helped departments incrementally inventory their licenses by vendor size and type

**Recommendation Five**

The U.S. category management program should standardize data and inventory common goods in each category where that is appropriate, and then leverage that information on behalf of agencies to conduct analytics on use, pricing, best practices, as well as issue warnings of problems with standard versions.

Category management requires managing spending, not just obligations. Detailed, accurate, and current accounting that enables spending visibility and control has led to U.K. price and demand management savings and ongoing identification of savings opportunities.

**Recommendation Six**

The U.S. category management program should begin collecting and analyzing agency accounts payable and contract data, in addition to budget obligations and transactional data. A central organization should work with industry partners to collect, standardize, cleanse, and analyze spend data on behalf of all agencies.
WHAT IS CATEGORY MANAGEMENT?

Category management began in industry in the 1980s, first as a method of organizing retail goods by the way consumers used them, and then in manufacturing and other company procurement organizations to segment third-party spending into categories for more efficient and effective purchasing.

Employing category management can produce savings ranging from 10 percent to 30 percent or more, depending on the maturity of a company’s procurement function and category management program. Some studies claim as much as a 12-fold return on investment among world-class practitioners.

A number of governments and government entities have adopted category management as the centerpiece of their procurement transformation efforts. Scotland, New Zealand, Australia, Canada, and the United Kingdom have the most developed programs. Many aspects of the approach are similar or the same in both the private and public sector. However, the scale and complexity of public sector procurement dwarf those of even the largest private sector companies.

Category management is a market-facing strategic approach to managing an organization’s goods and services spending with third-party providers. Public sector category management is not simply a procurement method, but rather a program for delivering an enterprise procurement strategy to obtain the capability required to accomplish a government’s overall strategy for achieving policy and mission goals. Procurement transformation using category management cannot succeed without endorsement, support, and active engagement by dedicated and highly visible top-level leaders and requires active participation by stakeholders across an entire enterprise.

How Has Category Management Been Adapted to the Public Sector?

To be effective in the public sector, category management must be a key element of a governmentwide procurement strategy, which must include governance and performance management frameworks and be aligned with policy, regulations, and legislation. It must also be linked to workforce capability and capacity improvements. Properly situated within an enterprise procurement strategy, category management can deliver efficiency gains, improved mission outcomes, savings, reduced total costs of ownership, more effective achievement of policy goals, and a more competitive and effective national supply base.

A Delivery Mechanism for a Procurement Strategy Supporting Mission and Policy Goals. Category management is most fully and successfully applied when it is used as a method for executing a governmentwide procurement strategy designed to acquire the capability to deliver on governmental business and mission strategies for achieving policy goals. It requires engagement, participation, and support across the entire governmental enterprise. The procurement function must be fully aligned with organizational objectives and must thoroughly understand program objectives and current methods and capabilities for achieving them.

A Market-Facing Method for Managing Spending on Goods and Services. Central to managing spending by category is reorienting government's procurement focus away from the way government departments are organized, their procurement lifecycle and practices toward the behavior of markets, and the suppliers within them. This requires investment in staff and data to provide market and supplier intelligence and analysis.

Government’s procurement spending must be categorized by supplier base so that buyers can gain advantage by leveraging market characteristics such as:

- The supplier hierarchy
- Emerging and innovative providers
- Supply networks
- The cost base for pricing
- Price inflators and deflators
- Mergers and acquisitions
- Financial and supply risks
- Purchasing practices

Both the U.K. and U.S. governments have focused their category management programs on a subset of overall procurement: commonly purchased goods and services. However, the approach can be used for spending on program-unique purchases as well.

A Model of a Category Management Framework

Figure 1 depicts the key elements of a category management framework within a government or enterprise that starts with the strategic and operational mission, and flows to the overall procurement strategy and priorities through to the segmentation of contract spending into categories. Each category is managed by a team that employs various tools to analyze buying and spending patterns, conducts market analyses, and works with agency-level buyers to ensure they can make the best-informed purchases.

Categories Are Developed Based on Spend Analysis. Spend analysis guides the creation and management of categories. It supports procurement transformation by revealing the cost of having multiple organizations buying the same or similar goods and services from the same suppliers at different prices, terms, and conditions. This knowledge sets the stage to enable the whole of government to begin acting as a single customer. Understanding its own spending patterns, government can then aggregate demand, eliminate duplicative contracts, manage strategic suppliers, and make better choices among procurement approaches based on market behavior and procurement policy goals.
As spend analysis illuminates demand across agencies, it enables government to standardize on one or a few configurations for commonly bought goods and services, in turn reducing unit, deployment, maintenance, and repair costs. Analysis also unpacks the total lifetime cost of owning assets, which supports challenges to agencies' demand. By uncovering the cost of government procurement practices, spend analysis aids in dispensing with or improving inefficient, expensive rules and procedures.

**Figure 1: A Model of a Category Management Framework**

Category Management Is the Delivery Method for Strategy and Policy
Category management strategies emerge from procurement strategy, which serves the overall policy and business strategy of a public sector organization.

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Source: Author
Market and Supplier Intelligence Shape Category Team Strategies. Supplier and market analysis help identify the best suppliers, determine at which level of the supply chain to buy, and mitigate the risks of supply chain disruption. This intelligence also helps ensure the market has the capacity to meet government’s needs, manage financial risk, and match sourcing strategies to commercial practice. Identifying emerging and innovative suppliers supports reshaping agency purchases, practices and even programs, to take advantage of market-leading services and products.

Category Teams Set Strategy and Vision and Employ Tools to Achieve Them. Category teams set vision—what the category seeks to achieve in the longer term (five to 10 or more years depending on the category)—and strategy for the short- and medium-term (within three years) necessary to achieve the vision. Members need a mix of skills including business acumen, market and mission expertise, capability in communication, and negotiation and stakeholder management.

In addition to savings through ending purchasing duplication, unnecessary variation in configurations, and inefficient processes, category goals include increasing breadth and quality of services; controlling and mitigating risks; reducing, controlling, and managing costs; and supporting government policy. These goals form the performance metrics for category strategy.

The team must set up a category governance structure to determine the shape and form of interactions with programs; roles, responsibilities, and scope within the team and in its interactions with stakeholders; regular performance reporting that is consistent across categories and auditable; and the process for receiving input and participation from departments, program customers, suppliers, industry experts, and other outside influencers.

Tools and Approaches Used to Implement Category Management. Category teams choose among category management tools and approaches to meet their strategic goals and vision. They adopt tools based on the results of spend, supplier, and market analyses. Tools include:

- **Strategic Sourcing.** Spending analysis opens the door to consolidating demand, requirements, and purchases, and to identifying the best contracts and suppliers. Knowing and being able to deliver the full volume of cross-agency demand, while often challenging in the government context, enables commitment to buy in larger lots and consequently to negotiate lower prices. Knowing the character of demand across agencies permits standardizing configurations for commonly bought goods and services. Buying fewer versions of a product or service reduces unit cost, enables interchangeability across agencies, simplifies deployment, and makes repairs and maintenance less expensive.

The methods teams choose to approach their category markets can range widely. Aggregating demand across government agencies within a category can win price and other concessions from suppliers. When reducing the number of suppliers in a category makes sense, teams can employ electronic catalogs to add buying efficiency. In the case of multiple-award category contracts, teams can employ electronic auctions or reverse auctions to more effectively wield aggregated demand and electronic sourcing tools to conduct competition at the task or order level. By enlarging demand and buying more efficiently, category teams can begin purchasing at different levels of the supply chain, directly from original equipment manufacturers rather than resellers, for example.

Market and supplier insights lead to procurement steps not often considered in traditional acquisition strategy and planning—such as buying at the right time, linking payment to desired outcomes, attracting bids from targeted suppliers, developing performance-based specifications, and choosing contract types aligned to the market.
• **Demand Management.** Category teams help programs and agencies redirect, reshape, and reduce their demand for goods and services and refine and consolidate their requirements. Because requirements are the vehicle that connects the organizational mission, vision, aims, objectives, and strategy to the supply base,\(^5\) category teams must challenge programs’ requirements and help better shape them. This requires discovering what is being bought now, what will be needed in the future, and asking “why” in both cases, based on the true program objectives. Challenging demand can be government’s fastest, most effective route to savings by preventing unnecessary, poorly planned, ill-informed purchasing, though savings from forgone purchases are difficult to account for.

Category teams urge program purchasers to ask themselves how their objectives could be met if no constraints existed. Ongoing requirements review can identify new opportunities to gain value, take advantage of evolving techniques and technologies in the supply chain, and adjust to the altered needs of program beneficiaries and the requirements of new legislation and/or regulations. Review also can illuminate new methods for achieving program goals that can help programs eliminate some requirements and create new ones, potentially in different categories entirely.

• **Contract Management.** Category teams must craft contracts using performance incentives appropriate to their markets. Centrally managed categories of common spending generally craft governmentwide contracts. Strategic sourcing should result in contracts with fewer best-in-market suppliers that have the capacity and capability to meet government requirements. This can, however, be challenging to small business and socioeconomic buying commitments. Contracts will take different forms and require more or less management depending on the levels of risk and value involved in supplier relationships.

Little management is needed for low-risk contracts from which greater value is not expected. For some, more risk management is necessary—for example, when supplier performance or financial failure could damage government’s reputation or when cost increases are more likely. Where there is greater value to be captured, contract management can elicit service above expectation at no added cost or produce savings via negotiated cost reductions over time, price benchmarking or process improvement by the supplier, the government program, or both.

Contract management also ensures that all required spending actually is going through the preferred contracts. It includes negotiating to receive and share management information from suppliers to augment the spend analysis database.

• **Supplier Management.** Supplier performance should be monitored and measured against category metrics and across categories. Centrally managed categories should collect feedback on suppliers from all agencies that buy from them. Suppliers considered low risk from which little added value is expected require less management. Those of strategic importance should receive the most attention to maintain and improve performance and potentially expand business with the government. Generally, the suppliers receiving the largest proportion of government spend should be strategic supplier management targets because they have a large impact on achieving enterprise goals.

Building deeper relationships with strategic suppliers can aid in managing risk and in incentivizing innovation on the government’s behalf. However, creating truly strategic supplier relationships is not easy for governments. The regulatory and legal framework requires continuous competition and often results in “arms-length” behavior toward suppliers. In addition, government organizations often are unwilling, as well as unable, to jointly invest with or commit to suppliers for the long term.

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5. O’Brien, Category Management in Purchasing, 141
As a result, government buyers are limited in offering sufficient benefits to incentivize key suppliers to engage in strategic relationships, as they exist in the private sector. Offering companies that are longtime top governmentwide suppliers access to key decision-makers responsible for governmentwide policies or programs, for example, could incentivize them to invest more deeply in solving cross-agency procurement challenges.

Governments use variations on this model, but similar elements tend to be reflected in most public sector category management programs. The following two sections describe how two different governments, the United Kingdom and the United States, developed their approaches. The concluding section offers insights, lessons, and recommendations for the U.S. program as it continues to evolve.
The Evolution of Category Management in the United Kingdom: 2010-2018
In October 2010, Finance Minister George Osborne announced unprecedented austerity measures in response to the effects of the 2008 world financial crisis that had plunged the United Kingdom into economic crisis. The newly elected Conservative and Liberal Democrat governing coalition committed to cut public spending by £81 billion by 2014/2015.\(^6\) This required an average budget reduction of 19 percent across all departments\(^7\)—and the elimination of 490,000 public sector jobs over four years. In the budget year 2010/2011 alone, government department budgets faced a £6.2 billion cut.\(^8\)

To undertake this drastic effort, Prime Minister David Cameron created a new agency within the Cabinet Office: the Efficiency and Reform Group (ERG). It was responsible for overseeing the immediate budget reductions and revamping government processes to increase value for money in the medium and longer term. The ERG, led by Cabinet Minister Francis Maude, quickly brought together a range of organizations and expertise in information technology, program management, and procurement from agencies and the Cabinet Office. Before the ERG’s creation, the center of government could urge departments to act collectively using common services or contracts, for example, but it had neither a way to compel compliance nor sufficient data to identify noncooperation.

The ERG’s goal was to work across departments and organizational boundaries to improve efficiency and the way public services were provided.\(^9\) To accomplish this, it prodded departments to work together to ensure economies of scale in procurement and adopted a bolder approach in managing contractors. For example, the ERG renegotiated contracts with strategic suppliers, froze spending in some categories, and imposed spending controls. Among the ERG’s early actions to achieve severe budget reductions was a review of major projects in 2010 that illuminated the degree to which those costing £50 million or more either involved large information technology spending or were IT projects. IT projects turned out to be nearly half those found to be at risk.

ERG’s immediate objective was to help departments handle the impending £6.2 billion budget cut by strengthening central oversight and limiting spending. For the next four years, the ERG oversaw government expenditure, IT policy and strategy, procurement, property, civil service reform, and a number of other areas. Maude sought not only to cut spending, but also to use procurement to drive Coalition Government policies, such as modernizing services, increasing the use of small and medium-size business enterprises, and moving public services to digital delivery. His efforts were seen as autocratic by government departments, observed Andy Nelson, former U.K. government chief information officer, “but also as the right remedy for the moment.”\(^10\)

In March 2011, the Efficiency and Reform Group announced that spending controls would last until 2015 and would include, for example, a requirement to submit all IT contracts with a lifetime value of more than £5 million for central approval. The ERG met with the U.K.’s 19 largest IT suppliers to negotiate memoranda of understanding to reduce the costs of their con-

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6. The U.K. government’s fiscal year runs from April 1 to March 31, hence its split year description.
tracts. At the same time, the ERG announced the adoption of category management in procurement of goods and services commonly bought across government. In order to curtail historically fragmented procurement spending, nine categories of common purchases—including telecom and IT commodities—were to be procured centrally beginning in October 2011.

The Roots of Category Management: Decades of Fragmented Spending

It wasn't the first time the government had attempted to lasso common purchases into categories and buy them collaboratively (see Appendix I). Multiple government procurement reviews stretching back to the early 1990s noted that public sector organizations at all levels paid widely differing amounts for the same goods and services. The findings brought repeated calls for aggregating spending and requirements to render government one large and powerful buyer instead of many smaller ones of varying strength and little knowledge of each other's spending patterns or the prices they paid to the same sellers. Category management sought to reinforce collaborative buying wherever appropriate by reversing the information gap between government and suppliers, which kept detailed records on their public sector customers.

In 1999, Peter Gershon, a well-known businessman, Conservative Party adviser, and advocate of cutting government spending through efficiency improvements rather than reducing services, produced his “Review of Civil Service Procurement in Central Government.” In it, he pointed out the folly of fragmented buying, whether by individual organizations or through dozens of public sector professional buying organizations. His and subsequent reports were unanimous in calling for a central procurement strategy, significantly more and better spending data for use across government, better supplier management, more training for buyers, and aggregation of requirements for and spending on commonly purchased items and services.

The Office of Government Commerce (OGC) was formed in 2000, on Gershon’s recommendation and with him at the helm, to promote aggregated buying for better pricing. The Buying Agency, a fee-for-service procurement organization, was folded into the Office of Government Commerce, along with a central IT managed service, to create OGC Buying Solutions, a professional buying arm. In July 2004, Gershon produced another study, this time urging government to buy as an enterprise, not as individual units, which supported the category management approach.11 A 2010 review of government efficiency commissioned by Maude further supported category management.12 The review found that government was failing to leverage its scale. This showed that years after Gershon’s first report, departments still were paying large price differentials for commodity goods, had multiple contracts with the same suppliers with different prices for the same or similar products and services, had access to poor spending data if any, employed procurement staff lacking in commercial skills, and weren't yet buying as a single enterprise.

Pressure to centralize and enforce collaborative procurement came to a head in 2010 under Maude’s Efficiency and Reform Group, leading to the appointment in 2011 of then-Cabinet Office head of procurement John Collington as the government’s first chief procurement officer. The 23-year veteran private sector executive at Accenture and other companies was to be responsible for delivering centralized procurement and achieving the long-sought goal of purchasing common goods and services as one government customer. He also was handed control of Buying Solutions to serve as the operational arm of centralization.

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Government Mandates Use of Category Management in 2010

Maude mandated centralized procurement across central government departments as a way of transforming common goods and services purchasing using category management, standardized requirements, and spend aggregation. The goals included increasing the amount of central government spending under category management from £2.5 billion to £10 billion by 2012/13 and cutting procurement costs by 25 percent over four years in nine categories that comprised the bulk of common purchases. In early 2011, as part of the centralization effort, Collington and David Shields, who was named managing director of Buying Solutions in June 2011, reviewed the buying organization and determined it should become the “heart of centralized procurement,” the “engine room” of government buying, and “a key delivering agent of government policy.”

Shields had begun working on the category management program when he served as the Office of Government Commerce program director for markets and collaborative procurement from 2005 to 2010. He was expert in applying the operating model, having implemented it in the private sector at AXA Group, a global financial services conglomerate, where he headed procurement across four operating companies for three years, and elsewhere. He had returned to government during implementation of reforms resulting from Gershon’s 2004 review.

A Central Agency Designated to Lead the Category Management Initiative.

In mid-2011, Shields announced that Buying Solutions would become the Government Procurement Service (GPS). He remained as managing director reporting directly to Collington. At the time, Buying Solutions’ operations included managing centralized deals based on standardized requirements and spend aggregation, running pre-negotiated framework agreements that public sector organizations could use to buy more than 500,000 products and services for a fee averaging 0.5 percent, acting as the “intelligent customer” on behalf of public sector organizations, and operating electronic auctions and the procurement card program.

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<tr>
<th>Table 1: Comparison of U.K. and U.S. Categories of Common Purchases to be Managed</th>
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<td><strong>U.K. Central Government Common Procurement Categories Announced 2010</strong></td>
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<td>Office solutions (office supplies)</td>
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<td>Professional Services</td>
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<td>Information and Communications Technology</td>
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<td><strong>U.S. Government Categories of Commonly Purchased Goods and Services Announced 2015</strong></td>
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<td>Office Management</td>
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<td>Industrial Products and Services</td>
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In becoming the GPS, the organization refocused on creating centralized deals to support category management and increasing spend under management, setting up and managing a governmentwide spend data warehouse, using revenues to fund not just itself but also governmentwide projects, and helping departments improve procurement staff capability. GPS created its own category management teams, which developed governmentwide category strategies approved by department commercial directors. To implement category management, GPS sought to improve spend analytics and commercial capability governmentwide, along with revising operating practices.

Central government departments were mandated to purchase common goods and services through governmentwide contracts run by GPS. Common spending was estimated to be:

• £13.18 billion of £54 billion in total 2009/2010 procurement by central government departments alone
• £9.4 billion of £47.9 billion in 2010/2011
• £7.5 billion of £45 billion total in 2011/2012

However, central government departments made up just 25 percent of the spending GPS sought to manage, with the wider public sector accounting for the remaining 75 percent of government spending.

Initial Implementation Built on Prior Collaborative Buying Efforts.

The Government Procurement Service rationalized and deepened earlier efforts to collaboratively procure goods and services. GPS applied category management to save billions of pounds between 2010 and 2013. Between 2011 and 2012, GPS saved £1.8 billion using demand management to reduce quantities purchased and saved £426 million via reductions in the average prices paid on the centralized contracts it managed. “The Government Procurement Service has improved capability and functionality as the delivery body for centralized procurement, having undergone positive changes from its legacy organization, Buying Solutions,” the National Audit Office (the U.K. equivalent of the U.S. Government Accountability Office) wrote in 2013. “Departments report better engagement and enhanced capacity in the new organization; feedback also echoed by the suppliers interviewed.” The audit office also found that by bringing together the functions for letting contracts and for supplier management and market intelligence, and by mandating that departments sign up for centralized contracts, GPS enabled the government to purchase as a single customer, leverage its buying power, and better manage supplier performance.

Changes in government energy procurement illustrate how GPS built on past collaborative procurement and category management efforts. In 2007, an Office of Government Commerce collaborative energy procurement team studied how energy was purchased across central government and the wider public sector, discovering pricing variation of up to 50 percent. The team worked with buying organizations to improve their contracts and to bring departments, schools, hospitals, and local government authorities into the agreements. By 2009, the team had access to 82 percent of the energy buying volume of central government, enabling consideration of new approaches, such as long-term deals directly with power generators. The team also convinced government buyers to adopt demand management strategies, such as automated meter reading—which provided better billing accuracy and information for managing usage—along with software to power down IT hardware at night.

GPS capitalized on the Office of Government Commerce team’s work to enable the government to invest in sustainable domestic energy production, create jobs, and provide economic stimulus in a commodity market still dominated by large, multinational corporations. GPS created a shared-service energy-trading capability and hired private sector traders and risk analysts to augment the civil service staff, moving from single-day trading to being able to forward buy over multiple years. GPS was paving the way to centralize not just management of the energy category but buying as well.¹⁶

Once the GPS trading desk was built, no other agency wanted to replicate the effort, so energy purchasing fell to GPS. GPS became the U.K.’s largest energy customer, spending £1.5 billion a year to buy gas and electricity for 75 percent of the public sector, which accounted for three percent of total U.K. energy demand. In 2013, as part of the Energy for Growth policy initiative to move government to renewable energy resources, GPS struck a 20-year deal with anticipated savings of £130 million to buy power from a new £465 million energy-from-waste facility. Energy for Growth was intended to “use the government’s clout as the biggest energy customer to shape the market for the good of the country,” Maude said in announcing the initiative in 2012.¹⁷ The new plant was intended to create hundreds of new jobs in a U.K. industrial area where employment had been declining and to help meet sustainability goals by creating clean energy from 350,000 tons of waste diverted from landfills annually.

Spend Management Became Launching Pad for Category Management Implementation.

Spend analyses conducted by GPS category management teams provided the launching pad for procurement efficiency. To enable the U.K. government to buy as one, GPS had to determine how much public sector organizations were spending on what, with which companies, and using which contracts. Only by analyzing governmentwide spending could GPS then get it under management, aggregate it, and leverage it to get improved outcomes and better prices, terms, conditions, quality, and performance. The data analysis supported segmenting spending into categories based on how markets, not government, operate. The procurement service drew accounts payable data from all departments and augmented it with market and financial intelligence as well as contract and supplier performance data. GPS also used data analysis to develop strategic plans in key spending categories. Those plans, in turn, enabled consolidation of government demand, and deeper knowledge of suppliers and their supply chains for more effective sourcing, and more effective interaction with suppliers.

Until 2010, when GPS calculated that the whole of government (including local governments and the National Health Service) annually bought goods and services totaling about £220 billion, the U.K. government had not produced a fully accurate and reliable total for third-party spending (see Figure 2). GPS instituted a monthly spend analysis tool that collected, cleansed, and analyzed accounts payable data drawn from departments’ financial management systems. The system collected accounts payable data and combined it with additional financial, market, and supplier information from another 30 feeds, including supplier performance reports and department budgets. These improvements in data management gave “the clearest picture yet of procurement patterns across government,” the National Audit Office found in 2013.¹⁸

Figure 2: Illustrative model for the structure of public sector category management

Source: NAO Review of Collaborative Procurement May 2010

*Spend Analysis Made Government a Smarter, More Efficient Buyer.*

Spend analytics enabled the Government Procurement Service and individual departments to identify cost-effective, high-performing suppliers in each category. Analytics also helped public sector organizations identify where they were spending unnecessarily or ineffectively so they could better manage demand by challenging those purchases. In addition, GPS could see when agencies were spending outside the most efficient governmentwide contracts and guide them back to better deals. The data also provided evidence as to whether capable small to medium-sized enterprises were receiving 25 percent of central government spending as called for by government policy.

With spending data drawn from the Coalition Government's spending controls and from its spend analytics tool, as well as management information provided by suppliers and other data sources, the government was better able to predict and aggregate larger lots of government-
wide spending to fulfill its volume commitments to suppliers. With guaranteed volume, sellers gave government better prices and terms and became more willing to share useful management information about their operations. Armed with those insights, GPS and departments began asking more informed questions to learn more about the industries where the U.K. spent the most, making government a better buyer. With spend data for common purchases, GPS could segment government’s supplier base in the markets for each category, determining how companies ranked, how important government was to them as a customer, and which firms competed with the suppliers the public sector relied on most. This information let GPS determine strategies for each spending category and the suppliers in it. For example, for strategic goods or services where the government was not the dominant customer, GPS could consolidate purchases with one or a few suppliers to leverage government’s purchasing volume as much as possible.

Supplier and Market Intelligence Streamlined Number of Suppliers.
Shields was clear that GPS used spend analysis along with supplier and market intelligence to determine which firms it deemed the best in a given category and to devise ways to ensure they would be drawn to bid on the frameworks for it. “It’s your job as a buyer to make sure you get the best suppliers to bid,” he said. All members of a buying team should know the market they are buying from well enough to know which companies deliver quality service and why; the team should be able to articulate that and put the language in its solicitations to attract the right suppliers, Shields added. This requires knowing what sourcing methods are common in the market and making sure to create strategies that effectively employ those practices.

One result of this sourcing approach is that the frameworks created by the Global Procurement Service and its successor agency, the Crown Commercial Service (CCS), tend to have fewer suppliers than do the U.S. General Services Administration’s multiple-award schedules. The U.K. Professional Services Category, for example, comprises 10 framework contracts with a total of 356 suppliers:

- Apprenticeship training and services (16 suppliers)
- Contingent labor (3)
- E-disclosure services (11)
- Finance and complex legal services (9)
- General legal advice (18)
- Executive search (1)
- Language services (13)
- Managed learning (1)
- Management consultancy (134)\(^{19}\)

In contrast, GSA, the executive agency for the U.S. government’s Professional Services Category,\(^{20}\) manages three governmentwide contracts in the category with more than 3,790 suppliers:

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• Professional Services Schedule (3,300+ suppliers)\textsuperscript{21}
• One Acquisition Solution for Integrated Services, or OASIS (484)\textsuperscript{22}
• Identity Protection Services (6)\textsuperscript{23}

In both countries, other buying organizations also offer agency, department, and government-wide contracts for the same or similar services, but the intent of GPS and its successor, CCS, was to winnow to the very best suited suppliers on framework contracts designed to meet category needs.

**Spending Data Drove Whole-Government Pricing.**
Spending data also provided insights into suppliers’ behavior and enabled GPS to take a broader strategic approach to driving whole-government pricing. For example, by learning what public sector organizations actually were paying for the same or similar products, government could ask suppliers pointed questions about what organizations were buying, why, and whether they were being appropriately charged. Managing spending by category helped develop intelligence about everything from price differentials and profit margins to supply chains and logistics in category markets.

For example, drilling into the information technology hardware subcategory revealed significant pricing differentials across the U.K. departments. This analysis led to driving whole-government pricing for standardized hardware configurations.\textsuperscript{24} The U.K. government was buying computers through hundreds of suppliers and more than 20 major resellers and systems integrators, and paying higher prices in comparison with commercial buyers. Some government hardware resellers were buying from other resellers or wholesalers rather than from original equipment manufacturers (OEMs). This meant government was being charged added mark-ups for shipping and handling and additional profit over and above OEM prices. Further, resellers weren’t aggregating their purchases to get lower prices and rarely negotiated effectively. When they did, they weren’t making rebates and reductions available to government. Of course, departments hadn’t been requiring or incentivizing the companies to aggregate orders, reduce the number of transactions with the government, or seek efficiency savings in their own supply chains.

With its new spending data and more extensive knowledge of category markets, suppliers, and their supply networks, government changed its behavior and the way it built contracts. GPS began negotiating prices directly with OEMs based on government purchasing volume and directing resellers to base their charges on the government-negotiated reduced OEM prices. GPS also shaved costs by negotiating prices for standard hardware specifications and using optimal supply routes—piggybacking on the most efficient distribution deals struck by OEMs.\textsuperscript{25}

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\textsuperscript{21} Professional Services Schedule, General Services Administration. Available at: https://www.gsa.gov/buying-selling/products-services/professional-services/professional-services-schedule-pss
\textsuperscript{22} U.S. General Services Administration. “OASIS and OASIS SB Contractor list, OASIS Contractors.” Available at: https://www.gsa.gov/buying-selling/products-services/professional-services/oasis/oasis-contractors
\textsuperscript{23} U.S. General Services Administration. Identity Protection Services (IPS) Blanket Purchase Award (BPA) Award Matrix, Identity Protection Services (IPS) Multiple Award Blanket Purchase Agreement. Available at: https://www.gsa.gov/buying-selling/products-services/professional-services/identity-protection-services-ips-multiple-award-blanket-purchase-agreement-bpa
\textsuperscript{24} David Shields interview with the author.
\textsuperscript{25} David Shields interview with the author.
Category Management Supported Governmentwide Policy Goals

From the beginning, Francis Maude’s Efficiency and Reform Group, the formation of the Government Procurement Service, and the expansion of category management were seen not just as a means to buy more effectively and cut costs. Maude always saw procurement as a tool for driving Coalition Government policies, such as increasing government spending with small businesses, modernizing IT infrastructure, and reducing carbon emissions. Following are three cases demonstrating how category-management-based procurement served the broader policy agenda:

**Case 1: Meeting Socio-Economic Goals to Support Small and Medium-Sized Enterprises.**

Categorizing spending enabled category teams to match the best buying tools to their specific markets to better achieve governmentwide socio-economic policy goals by how it directed government spending. For example, while the overall policy was to increase spending with small and medium-sized enterprises (SMEs), doing so was not appropriate in every category. In the U.K., where all the producers in the undifferentiated gas and electric category are global companies, there was no advantage to adding suppliers and increasing competition to help achieve the governmentwide policy goal for SME participation. In fact, using energy brokers, many of which were small or mid-cap companies, had eroded value. Thus, GPS’s strategy focused on managing large energy producers directly.

But in a category dominated not by large suppliers, but by small businesses, it made sense to increase competition by adding suppliers that matched the market composition and, in the process, help meet governmentwide small business goals. The United Kingdom has myriad small software-as-a-service (SaaS) and digital suppliers in a burgeoning market. So, in the software subcategory, GPS helped the Government Digital Service deploy a dynamic purchasing online solution, the G-Cloud, in 2013. This framework now has nearly 3,000 suppliers—90 percent of them small—and makes it easy to compare vendors and quickly make awards. G-Cloud—which provides commoditized cloud-based services to government agencies—is an example of a sourcing tool appropriately matched to a market with many capable small suppliers. Using it helped meet and exceed the 25 percent policy goal for SME usage.

Users, suppliers, overseers, and its creators laud G-Cloud as an easy to use, easy to join, and effective contract for acquiring cloud services. It comes as close to permitting direct awards to suppliers as possible under the rules, and it has been an effective tool for opening up the digital IT market (see box “Buying Through G-Cloud”). Now in its tenth iteration, it delivered £2.85 billion in cloud-related services between April 2012 and December 2017.

**BUYING THROUGH G-CLOUD**

G-Cloud offers government buyers ready access to three options of commoditized cloud-based services:

- **Lot 1**: Cloud hosting suppliers enabling buyers to pay by usage to deploy, manage, and run software on cloud infrastructure and providing computing resources on supplier-owned infrastructure.

- **Lot 2**: Cloud software suppliers providing use of their applications running on cloud infrastructure accessible via the Web or a program interface.

- **Lot 3**: Cloud support providers selling assistance in setting up and maintaining cloud services.

Using G-Cloud is equivalent to issuing a direct award to a contractor after comparing services and pricing on a catalog.
G-Cloud 9 launched in May 2017 with 2,827 suppliers offering 19,000 services, up from 257 offering 1,700 services on G-Cloud 1 in April 2012. The framework saw £401 million in sales in 2016, up from £22 million between April 2012 and April 2013. Nearly half of total G-Cloud sales have gone to small and medium enterprises—£1.14 billion or 47 percent—versus £1.19 billion, or 49 percent, to large businesses.

G-Cloud 10 opened for applications in April 2018. As of July, 3,505 suppliers—90 percent of them SMEs—had joined, up from 2,856 on G-Cloud 9 at expiration. Total sales were £3.5 billion, and 46 percent of sales by value and 69 percent by volume had gone to SMEs.

G-Cloud helped meet the goal of increasing spending with SMEs, part of the Cloud Strategy as well as overall U.K. government policy. It also has helped boost prime contracts with SMEs. G-Cloud alone accounted for 7.2 percent of the £5.6 billion total in government prime contract spending with SMEs in 2016.

**Case 2: Modernizing IT Infrastructure.**
Beyond supporting the SME spending policy, G-Cloud also helped drive the governmentwide IT strategy. Before the G-Cloud framework was born, the 2011 IT strategy created a government cloud program aimed at disrupting the IT landscape by:

- Consolidating or eliminating physical data centers
- Supporting disaggregation of large, long-term, monolithic contracts with global suppliers by enabling departments to more easily change providers and adopt up-to-date solutions using simple contracts
- Enlarging the IT marketplace to include more small and medium-sized companies to take advantage of their innovation and agility and to build business for “U.K. PLC,” the market of U.K. SME cloud suppliers
- Reducing IT costs by paying for resources as they are used from providers that compete heavily and by making costs and quality of services transparent so departments can more easily choose among suppliers
- Taking advantage of commodity, off-the-shelf solutions that are interactive and can be shared across government versus specialized custom applications and hardware

The strategy also envisioned a government applications store, where departments could “easily find, review, compare, purchase, commission, decommission, and switch” among “trusted services.” Moving to cloud computing was integral to meeting the “digital by default” agenda set in 2010, according to the IT strategy. Adopting cloud and sharing commodity IT services and products “enables the move from high-cost customized ICT (information and communication technologies) applications and solutions to low-cost, standard, interchangeable services where quality and cost [are] driven by the market,” the strategy said. “It means changing the culture of government to adopt and adapt to the solutions the market provides and not creating unnecessary bespoke approaches.”

To support the cloud strategy, GPS worked with then-Government Chief Information Officer Andy Nelson to create in 2012 a governmentwide procurement framework for four categories of cloud services: infrastructure-, platform-, and software-as-a-service, and specialist services. GPS played a crucial role in creating a model that is legal, yet vastly simpler than the Official Journal of the European Union procurement process then being followed by the United Kingdom, Nelson said. “We put a catalog of services online and people could go and buy them. That was pretty much it,” he said.30

Case 3: Reducing Carbon Emissions from Fleet Vehicles.

In addition to supporting agencies in meeting their SME spending policy goal and conducting IT infrastructure modernization, category management also enabled the government to achieve other governmentwide policy goals, such as carbon emissions reduction. Like the United States, the United Kingdom has a history of including social and environmental issues in procurement decisions. Its 2005 sustainability strategy sought to lead the E.U. in sustainable procurement by 2009. In 2006, government targeted a 15 percent carbon emissions reduction by 2010/2011 from road vehicles used for administrative operations. In 2008, William Jordan was appointed the first U.K. Chief Sustainability Operating Officer. The post resided in the Office of Government Commerce. In response to this redoubled sustainability effort, the Office of Government Commerce undertook a data scan of the public sector fleet, discovering government was spending more than £380 million a year to reimburse workers using their own vehicles to carry out work-related duties. This so-called grey fleet was putting more than 300,000 tons of CO2 into the atmosphere annually.31

The Office of Government Commerce’s fleet collaborative procurement program helped the Department for Work and Pensions (DWP) create a public-sector-wide vehicle purchase framework contract with 17 vehicle manufacturers covering 78,000 vehicles. The £1 billion deal enabled DWP to negotiate lower prices. The Office of Government Commerce also helped the National Health Service’s Purchasing and Supply Agency strike a similar deal. The fleet category team established a database so departments could monitor use of the fleet contracts and track spending and carbon emissions based on management information received directly from suppliers. Average carbon emissions for vehicles purchased or leased under the two frameworks were 1.5 percent lower in April to June 2008 than in the same period in 2007.32

An independent survey of departments found that the average age of grey fleet cars was 6.7 years, and noted that older cars pollute more—e.g., a 2008 Ford Focus produced 27 percent fewer emissions than a 2000 Ford Escort. So, departments struck policies to reduce grey fleet travel, such as forbidding staff to use their own cars for trips longer than 100 miles. That prompted them to use rentals—which tended to be newer vehicles—or public transport or avoid traveling, all of which led to lower emissions. At the same time, departments were encouraged to provide video conferencing at all their offices, the OGC Buying Solutions travel framework made it easier to book public transport, and departments used their finance systems to refuse to reimburse unauthorized grey fleet trips.

As a result, in 2008, DWP alone cut grey fleet travel by 20 per cent or about 9.5 million miles—500,000 miles of it moved to rental cars and the rest avoided. DWP saved an estimated £3.6 million and avoided emitting 3,000 tons of carbon.33

Building on the Office of Government Commerce’s consolidation of government’s demand for cars on frameworks, Government Procurement Service standardized on a minimum set of configurations for vehicles used on departmental business, lined up large-volume purchases, and then bought using electronic auctions when there was a glut of acceptable cars on the market. Timing those auctions to the end of suppliers’ selling seasons, GPS achieved savings of 30 percent to 50 percent off best commercial prices, in addition to continuing to help meet sustainability goals.

Implementing the Category Management Initiative: Centralize or Decentralize?

The United Kingdom operates under a unitary form of government whereby the central government has a much higher degree of control and responsibility down to the local level. Historically, its reform efforts are centralized in approach. But centralization can fail if there is insufficient capacity at the center to manage the effort and overwhelming resistance by departments. The category management initiative came to suffer both conditions.

Centralizing Common Purchasing Proved a Bridge Too Far.

Believing that departments still retained too much choice about whether to use demand-aggregating central frameworks, in 2014, the Cabinet Office moved GPS, along with several other Cabinet entities, into a new organization: the Crown Commercial Service (CCS). Departments were mandated to use CCS to make common purchases.

In support of a goal of shifting all £13 billion in common central government procurement from departments into CCS by 2018, departments began transferring their contracting staff to it, doubling CCS’s size in two years. The plan was to bring over procurement responsibilities and staff from eight central departments between 2014 and 2015, three more from 2015 to 2016, and to have CCS buying all common goods and services for the entire central government by the second quarter of 2017.

The governmentwide shift proved to be more than CCS could handle.34 Only three departments that previously had passed their common buying to GPS were entirely transferred to CCS by 2014, and they charged that CCS was not communicating effectively with them and was promising more than it delivered. Delayed procurements, incomplete transitions, and lower-than-promised savings experienced by first movers made other departments reluctant to shift their buying.

Observers ascribed the failure to centralize common buying at CCS to hubris, rushed implementation, and lack of a plan for standardizing procurement services either within departments before they transitioned to CCS, or within CCS afterward.

The Crown Commercial Service also had agreed with a number of transferring agencies not to change the way it ran their procurements. As a result, it was forced to operate multiple bespoke procurement services instead of crafting a single standard offering for all departments.

Due to poor framework management, in 2015 CCS had to extend a majority of its frameworks beyond their permitted durations, violating regulations. Departments complained that pricing on the frameworks was not what it should be. CCS’s problems illuminated a long-running lack of clarity about which procurements should be centralized and disagreement over what spending actually is common across departments. Estimates of the size of that spending have varied from £8 billion to £15 billion, with IT spending being particularly hard to peg since some is obviously common while some is highly specific to a single department.35

As a result of its own missteps and a revolt by departments against Cabinet Office-led reforms, CCS was forced to end the transfer of buying activities, stop charging them fees, and return some staff. By October 2015, the Crown Commercial Service managed around £2.5 billion of common spending and contracts for seven central departments—an insuperably long way from the 2017 target of £13 billion for all 16 of them (see Figure 3). “We got things wrong, we onboarded work much too quickly,” conceded Matt Denham, then-CCS commercial delivery director, at a public procurement summit in 2015.36

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Malcolm Harrison, who took over as the Crown Commercial Service's chief executive in 2016 and departed in the summer of 2018, defended the aspirations for CCS and some of its work, but ruefully admitted that it had not executed as planned. While he agreed that CCS's framework prices were not as good as some companies have negotiated, Harrison also pointed out that departments had to commit spending to the frameworks and guarantee suppliers volume to drive truly competitive pricing.\(^{37}\) He said CCS learned from its mistakes and began collaborating more closely with departments on category frameworks. “The No. 1 priority, by a long way, is making sure we have strategies for our categories and then the frameworks that flow from those. You have to get a category strategy right first and that involves a lot of discussion with the users—the departments—based on what their needs really are, and on how the marketplace is evolving, and how the supplier base is evolving,” he said.

CCS made changes and moved to collaborate more with departments, taking pains to better fit their needs and to help suppliers adjust to the disaggregation of large, long and expensive IT contracts, Harrison said. About £4 billion in such contracts will expire in coming years and become ripe for breaking apart, so CCS has begun assisting suppliers in positioning for disaggregation by getting onto the digital services frameworks to bid for the piece parts: cloud hosting, networks, software-as-a-service, etc.

The Focus Shifted from Centralization to Strengthening Departments’ Commercial Capability.

With Francis Maude's departure from the Cabinet Office in 2015, the drive for reform from the center and centralization of procurement shifted. By 2017, the Crown Commercial Service was publicly clarifying that it had no plans to expand its role in central procurement. Instead, the Cabinet secretary, the chief of the civil service, and the chief commercial officer began a governmentwide effort to strengthen procurement staff capability within departments and CCS by creating a commercial career function. And they have done it in concert with and under the direction of departmental chief commercial directors. This is a significant change, given that in 2005 the commercial directors of the top six departments—who were accountable for approximately 80 percent of procurement spending overall—had little regular cross-department communication or interaction.\(^{38}\) By giving commercial teams more strategic roles and skills, the expectation is that they will be better able to negotiate effectively with government’s suppliers.

A new cross-government leadership group of departmental commercial directors now meets regularly and has designed procurement quality standards all departments must meet, as well as co-creating other reforms with the Cabinet Office.\(^ {39}\) The Cabinet Office eased spending controls in April 2018.\(^ {40}\) It gave departments a “lighter touch” route to winning the freedom to make “business as usual” expenditures if they create and maintain 15-month pipelines\(^ {41}\) of planned spending to which they apply the Commercial Operating Standards.\(^ {42}\) New or increased commercial procurement spending over £10 million can move forward without fur-


\(^{38}\) David Shields, interview with author.


ther review if a departmental assessment board approves that it has met the newly established standards (see Appendix II).

To create a cohesive, well-prepared career field of high-caliber procurement specialists, all senior commercial staff are now employed by the Cabinet Office Government Commercial Organization headed by the first Government Chief Commercial Officer Gareth Rhys Williams. They work in departments but also are deployable across government to support critical contracts. Senior commercial staff’s starting salaries are being raised by more than £20,000 on average, and they will be eligible to receive increased performance-related pay. The benefits are designed to attract better, more experienced professionals and to enhance the esprit de corps of the occupation. All incumbent senior procurement professionals must pass a one-day assessment that is purposely stringent to weed out the less skilled. About 25 percent of those assessed are passing, about a third are dropping out, and the rest are on development plans to be assessed again in two years. Departments similarly are assessing non-senior staff. The creation of a more strategic role for a more expert and senior cadre has been having a large impact, according to observers.

Next Steps
Austerity continues in the United Kingdom under the Conservative government that took power in 2015. Its 2017 Autumn Budget, released in November 2017, proposed to further reduce total public sector spending 3.2 percent over the next five years. These reductions will be harder to achieve because the easiest cuts have been harvested. As a result, the government continues to seek savings through procurement efficiencies.

The pressure to disaggregate large contracts persists, having had some notable successes. In the last seven years, HM Revenue and Customs broke up a contract with one large IT vendor and the Department for Work and Pensions exited another. In 2016, U.K. Export Finance disassembled a 15-year contract with a large IT vendor into a number of individual deals with small to medium-sized enterprises. More disaggregation opportunities loom in the next two years with the expiration of £4 billion in large deals awarded between 1995 and 2008. To help prepare, the Cabinet Office in November 2017 published a best practices and guiding principles handbook harvested from departments that had successfully moved from large, single-vendor IT outsourcing contracts to multi-vendor disaggregated environments and cloud services.

The Crown Commercial Service’s IT category is supporting the disaggregation policy with a new style of IT framework. Technology Services 2 went live in September 2017 and offers technology strategy and service design, transition and transformation, operational services and programs, and large projects support from 157 IT companies. CCS IT Category Director Niall Quinn called the framework “the landing point” for disaggregated systems integrator con-

He also pointed to CCS’s Digital Marketplace Crown Hosting contract as a disaggregation-supporter, noting that the single-supplier framework offers departments physical hosting as a bridge to full cloud services. A “pivot into the cloud,” he called it. “Move legacy now, and evolve to the cloud when you are ready,” as the framework’s website puts it. The government’s Crown Hosting Data Centre CEO Steve Hall said, “We have taken away all the excuses [for not moving to the cloud]. Things like ‘it doesn't match with my flavor of security,’ or ‘it doesn’t meet the cost savings.’”

As with the Digital Marketplace, CCS began jointly developing with the Government Digital Service a Crown Marketplace in 2015. It originally was intended to be an Amazon-like online portal where public sector procurement officials would be able to buy goods and services directly. The early thinking was that both the Digital and Crown marketplaces would survive, but Quinn said in November 2017 that the Digital Marketplace likely would be subsumed by the Crown. CCS beta tested the portal idea with a Purchasing Platform that includes three portals—one for technology products, one for office supplies, and one for print/scan/copy products—on which prices are updated daily and government purchase cards can be used for payment. The marketplace project has see-sawed between a single online platform, allowing public sector organizations to buy a full range of goods and services, and a set of platforms, each for one category commercial agreement.

In September 2018 Dwx, a London-based IT design firm, won a contract viewed as a foundation for the marketplace. Under the deal, Dwx is digitizing access to five commercial agreements—facilities management, management consultancy, legal services, agency supply teachers, and apprenticeship training services—and building “technical and architectural foundations for future digital buying” for other agreements.

48. Sam Trendall, “Crown Hosting CEO: ‘We Have Taken Away All the Cloud Excuses,’” Public Technology, Feb. 14, 2018. Available at: https://www.publictechnology.net/articles/features/crown-hosting-ceo-%E2%80%98we-have-taken-away-all-cloud-excuses%E2%80%99utm_medium=email&utm_campaign=Daily%20email%20%21st%20February&utm_content=Daily%20email%20%21st%20February&utm_source=Email%20newsletters&utm_term=Crown%20Hosting%20CEO%20We%20have%20taken%20away%20all%20the%20cloud%20excuses
49. Trendall, “Crown Hosting CEO.”
Late 2014 saw the beginning of an effort to implement category management across the U.S. federal government. The Office of Management and Budget (OMB) and General Services Administration (GSA) took a gamble on creating an ambitious, first-ever program with just two years left in its term. Questions about the initiative’s longevity accompanied it through the early months of the Trump administration. It is now clear that the program is here to stay since it has appeared in every meaningful pronouncement of management policy, up to and including the 2018 President’s Management Agenda. This bipartisan initiative had its roots in a 2002 Bush administration initiative called “strategic sourcing” that had been continued in the early years of the Obama administration.

**Laying the Foundation—the Federal Strategic Sourcing Initiative: 2005**

In 2005, OMB designated the use of strategic sourcing as governmentwide policy.\(^{53}\) In the U.S. government context, strategic sourcing has been defined as a structured process whereby agency procurement offices critically analyze the spending patterns of their organizations to find ways to better leverage their purchasing power, reduce costs, and improve overall performance by centralizing the purchasing of common commodities and services.\(^{54}\) The initiative led to common purchases of items such as copy equipment and office supplies.

The Federal Strategic Sourcing Initiative continued to expand over the years. OMB created a cross-agency Strategic Sourcing Leadership Council in 2012—composed of government’s seven largest buying agencies—to help institutionalize the approach. However, a 2013 Government Accountability Office (GAO) review found that while the initiative led to significant savings for those commodities and services it included, it was being used to manage only about five percent of procurement spending by government's biggest buyers. The strategic sourcing initiative became the foundation upon which the Obama administration would build its more extensive category management program.\(^{55}\)

Unfortunately, its basis in the strategic sourcing initiative has given rise to a false impression that category management is simply an extension of it. That is problematic because federal agencies have “generally been reluctant to strategically source their high-spend services categories,” as GAO reported in 2015. That reluctance may have reduced initial support among agencies for the category management program.\(^{56}\) Indeed, to dispel the notion that the two initiatives were synonymous, the Acquisition Gateway—an online information portal supporting the category management program—expressly stated that “category management is not just a new name for strategic sourcing,” and that “strategic sourcing is just one type of category management strategy.”\(^{57}\)

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Launching the Category Management Initiative: 2014

Anne Rung, who had served as Deputy Secretary for Administration and Procurement for the Pennsylvania Department of General Services, was nominated in 2014 to become administrator of the Office of Federal Procurement Policy (OFPP) in OMB. She was experienced in using strategic sourcing to leverage government spending to get better prices, faster delivery, and more value from procurement. In Pennsylvania, she told senators at her 2014 confirmation hearing, “We aggressively and routinely undertook strategic sourcing to generate over $140 million a year in savings, for more than $300 million in total savings.”

She went on to say, “I want to work with federal agencies to better manage the billions of dollars spent each year on commonly purchased items...Shifting the federal government from managing individual purchases to managing entire categories of commonly purchased items can drive greater transparency, significantly reduce duplication, increase competition, improve oversight, and, in the end, drive savings and deliver better value.”

Confirmed in September 2014, Rung set about building a policy framework for category management. She charged the cross-agency Strategic Sourcing Leadership Council with approving and prioritizing categories of common governmentwide spending. Rung’s first policy memorandum, “Transforming the Marketplace: Simplifying Federal Procurement to Improve Performance, Drive Innovation and Increase Savings,” issued in December 2014, kicked off category management in 10 areas of common governmentwide spending, which, at the time, totaled approximately $277 billion a year, rising to $307 billion in fiscal 2017.

Creating a Governance Framework. Early in 2015, the Strategic Sourcing Leadership Council was reconstituted as the Category Management Leadership Council. Led by the OFPP administrator, it oversees the groups charged with managing the 10 governmentwide categories that, by fiscal year 2017, comprised nearly 60 percent of the $510 billion in overall procurement spending (see Figure 4). These spending categories cover common products and services such as facilities and construction, medical and pharmaceutical products, and commercial IT software and hardware.

Each of the 10 governmentwide categories is governed by a dedicated team led by a senior government executive and managed by one or more “executive agent” agencies. These agencies provide the category managers. Beginning in June 2016, the teams delivered their initial annual category strategies to the Category Management Leadership Council for approval. A governmentwide Category Management Program Management Office housed at the General Services Administration (GSA) supports the category managers.

An Initial Focus on IT Spending. The information technology category has received the most attention from the Office of Management and Budget since 2014. As defined by the category management program, IT accounted for approximately $50 billion in annual procurement spending over each of the three fiscal years prior to 2016 and is one of the largest governmentwide categories. The focus on information technology was in alignment with the Obama administration’s emphasis on cloud computing and digital delivery of government information.
**Figure 4: U.S. Federal Category Management Governance Structure (2017 Common Spending Total: $307.2 billion)**

Source: President’s Management Agenda 2018

**Government-Wide Category Managers and Their Agencies**

1. **Facilities and Construction**: Mary Ruwe, General Services Administration (GSA)
2. **Professional Services**: Tiffany Hixson, GSA
3. **Information Technology**: Bill Zielinski, GSA
4. **Medical**: David J. Smith, Defense Department (DOD) & Dr. Poonam Alaigh, Veterans Affairs Department (VA)
5. **Transportation and Logistics Services**: Kristen A. French, DOD
6. **Industrial Products**: George Prochaska, GSA
7. **Travel**: Timothy Burke, GSA
8. **Security and Protection**: Jaclyn Smith, Homeland Security Department (DHS)
9. **Human Capital**: Indu Garg, Office of Personnel Management (OPM)
10. **Office Management**: Dena McLaughlin, GSA
and services. It also was a response to key IT management and acquisition legislation enacted between 2014 and 2017, such as the 2014 Federal Information Technology Reform Act (FITARA) and the 2016 Making Electronic Government Accountable by Yielding Tangible Efficiencies (MEGABYTE) Act.

The IT focus came to dominate the administration’s category management policy framework. All of the category management policies issued between 2014 and 2016 dealt with technology, and most resulted from collaboration between Anne Rung and then-U.S. Chief Information Officer Tony Scott.

For example, OMB’s memo to agency leaders—“Category Management Policy 16-1: Improving the Acquisition and Management of Common Information Technology: Software Licensing”—sought to coordinate software purchasing and usage strategies, centralize software management, optimize usage of commercial licenses, and maximize use of governmentwide software agreements. It preceded the MEGABYTE Act, which codified the OMB software management policy requirements. The policy also answered FITARA’s call to implement software strategic sourcing and governmentwide licensing agreements. Other Rung-Scott collaborations responded not to legislation but to the need to impose standardization, consistent costs, data-based decision-making, and demand management on common IT product and services procurement (see box on Policy Guidance Memos).
Designating Category Management as a Cross-Agency Priority (CAP) Goal. In addition to the policy guidance memos, the Office of Management and Budget designated category management as one of its cross-agency priority goals for fiscal years 2015-2018 (see box on CAP Goal). This added a quarterly progress measurement regime across all governmentwide categories.61

Promoting the Use of Best-in-Class Contracts. Bringing all government spending on commonly purchased goods and services under management is a category management program priority addressed primarily by directing agencies to move spending to best-in-class (BIC) contracts, where it automatically qualifies as under management.

The BIC designation highlights the best contract vehicles available in the category program’s estimation. Moving spend to BIC contracts has been the key vehicle for achieving the top category management goal set out by GSA since 2015:

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consolidating or eliminating contracts deemed duplicative. As of August 23, 2018, there were 33 BIC contracts.\(^{62}\) BIC contracts can be used by multiple agencies and must satisfy five OMB key criteria:

1. Rigorous requirements definition and planning processes
2. Appropriate pricing strategies
3. Data-driven strategies to change buying and consumption behavior (i.e., demand management)
4. Category and performance management strategies
5. Independently validated reviews\(^ {63}\)

**Tracking Progress via “Spend Under Management.”** To address the failure by agencies to adopt strategic sourcing approaches under the former Federal Strategic Sourcing Initiative, OMB set performance targets for the extent of agency adoption of category management in their purchasing behaviors. “Spend Under Management” (SUM) is defined as the percentage of an organization's contract spending that is actively managed according to category management principles. OMB and agencies measure SUM using a model that includes four maturity tiers, each with five attributes: leadership, strategy, data, tools, and metrics.\(^ {64}\) The model originally was announced in 2014 by Anne Rung and then-GSA Federal Acquisition Service Commissioner Tom Sharpe and has been subsequently fine-tuned by OMB and GSA.\(^ {65}\) The current SUM maturity tiers are:

**Maturity Tier 0:** Spend on contracts not aligned to category management principles

**Maturity Tier 1:** Spend on mandatory-use agency-wide solutions

**Maturity Tier 2:** Spend on multi-agency contracts

**Maturity Tier 3:** Spend on best-in-class (BIC) contracts\(^ {66}\)

Category teams collect and analyze spending obligation data under their purview to understand and employ the best tools for moving it under management. The IT category team, for example, studied whether agencies purchasing IT equipment piecemeal tend to buy smaller quantities without using existing governmentwide or agencywide contracts. It found that in fiscal 2015, agencies made 55,837 stand-alone purchase orders, 11,173 orders using blanket purchase agreements on the GSA schedules or other indefinite delivery/indefinite quantity (IDIQ) contracts, and 6,040 agency contracts directly with IT equipment suppliers.\(^ {67}\)

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66. U.S. General Services Administration. “Government-Wide Category Management Key Performance Indicators V2.0” p. 9

This kind of data analysis enables category teams to make the case for agencies to aggregate their purchases and order on BIC contracts to reduce the administrative costs of tens of thousands of purchase orders and to leverage government’s buying power.

**Creating the Acquisition Gateway to Support Agency Procurement Officers.** The Acquisition Gateway, an online portal containing background information to support the category management initiative, was designed to provide tools, guidance, and instruction, as well as an online workplace, to assist procurement professionals in applying the tools adopted by the category management teams. It has reached more than 20,000 users at 95 agencies and hosts 340,000 searchable requests for proposal and other information, most available only to federal government users.68

In a January 2017 end-of-administration self-assessment, OMB reported progress and savings achieved as a result of its shift from an exclusive focus on strategic sourcing to the broader approach of category management. It noted that the strategic sourcing effort “is a short-term strategy that is focused almost exclusively on driving lower unit pricing for a product or service by aggregating demand.” OMB claimed savings of $2.1 billion using smarter buying practices under category management. Streamlining $8 billion in purchases of software, hardware, and mobile services led to savings and the reduction of duplicative contracts by 25 percent, according to the report. It also projected that by fiscal year 2019, category teams’ plans and strategies would bring under spend management $95 billion in common procurement spending and reduce the number of duplicative contracts by 35 percent.69

**Prioritizing Category Management in the President’s Management Agenda: 2018**

In 2017 and 2018, the Trump administration continued, in whole or in part, a number of management policies that it had inherited from the Obama administration, including category management. For example, an April 2017 OMB memorandum calling on agencies to reorganize to pave the way for workforce cuts told agencies to include in their reorganization plans proposals for streamlining IT, acquisition, financial management, human resources, and real estate that leverage “external service providers, including those providers on best-in-class contracts as part of the category management effort.”70

The Office of Federal Procurement Policy (OFPP) now views category management as a key driver for IT modernization. The Trump administration’s IT modernization plan71 proposed to use category management to continue and enhance the effort to move government IT to the cloud. It recognized procurement as the key avenue for transitioning to consolidated network architectures and shared services while also bolstering cybersecurity. “We’ve been doing our deepest dive in category management in IT and have identified many best-in-class solutions, strategies, and practices that make it easier, faster, and less expensive to buy common IT requirements,” Acting OFPP Administrator Lesley Field said in March 2018.72

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The fiscal year 2018 budget request vowed to drive adoption of category management practices and to continue reducing the number of contracts. The fiscal year 2019 budget request continued the IT focus, housing reference to category management in the “Information Technology” chapter of the Analytical Perspectives volume. It said that IT modernization will be supported with adoption of governmentwide standards to reduce contract duplication for IT and professional services and will leverage common solutions and shared services to bring spending under management control.

The President’s Management Agenda released in March 2018 included an update to the original Category Management Cross-Agency Priority Goal set in 2015.

**CROSS-AGENCY PRIORITY GOAL FOR CATEGORY MANAGEMENT FY 2018-2020**

Federal agencies will leverage common contracts, meaning that they share in contracts that get the best value for taxpayers, in order to buy common goods and services as an enterprise. This approach will eliminate redundancies, increase efficiency, and deliver more value and savings from federal acquisition programs. By the end of fiscal year 2020, the government will achieve $18 billion in savings for taxpayers by applying category management principles—or smart decision-making where agencies buy the same kinds of goods and services through best value contract solutions—to 60 percent of common spend. In addition, the government will reduce duplicative contracts by 50,000, potentially reducing administrative costs by hundreds of millions of dollars.

**The Challenge**
The federal government spends over $300 billion on common goods and services every year. However, because agencies buy in a fragmented manner, taxpayers often do not get the benefit of the government’s position as the largest buyer in the world. Hundreds—and in some cases thousands—of duplicative contracts are awarded to the same vendors for similar requirements. This fragmentation leads agencies to pay significantly different prices—sometimes varying by over 300 percent—for the same items.

**What Success Looks Like**
Success means the government will not only save taxpayer dollars but will improve mission outcomes. For example, this work will allow: our law enforcement personnel to ensure their safety through easy access to equipment such as ammunition and body armor; medical professionals to save time and focus more on patients by ordering pharmaceuticals through electronic catalogues; agencies to more easily prioritize modernizing the government’s IT infrastructure, to include efforts such as buying standardized computers; and the goal will be evaluated using industry best practice metrics, including savings, spend through common contract solutions, reduction of duplicative contracts, small business utilization and training the workforce.

**Source:** Performance.gov

Six Key Performance Indicators Driving the Initiative. In response to the new agenda, the Category Management Program Management Office updated its guidance on measurable key performance indicators for the governmentwide program, prioritizing the following key performance indicators:

1. **Increase Spend Under Management (SUM):** the total dollar amount of obligations through contracts that are actively managed in compliance with the SUM contract tiered maturity model

2. **Increase Best-in-Class (BIC) Obligations Against Addressable Market:** the total dollar amount of obligations tracked via the Federal Procurement Data System-Next Generation (FPDS-NG) through best-in-class solutions

3. **Increase Cost Avoidance:** demonstrates the extent to which the program is delivering increased value for the goods and services acquired by agencies, measured in dollars

4. **Reduce Tier 0 Contracts:** demonstrates the extent to which the program is reducing the number of Tier 0 (“open market”) contracts, defined as those not aligned to category management principles

5. **Increase Small Business Utilization:** demonstrates the extent to which the program maintains or increases government use of small businesses (measured as a percentage) while implementing category management strategies

6. **Train the Acquisition Workforce:** tracks the number of individuals trained in the aspects and components of category management

The third annual update of the strategic plans covering common spending categories was approved by the Category Management Leadership Council in April 2018. It aims for a 5 percent to 20 percent reduction in the numbers of contracts serving the 10 categories. To achieve these contract cuts, agencies were assigned targets for increasing the proportion of their spending that is consistent with category management principles, as reflected in their SUM metrics, and to increase their use of best-in-class contracts. “Each of the categories is focused on increasing spend through best-in-class solutions, which is what the category managers can work to influence by working with the agencies,” said Field.

The Category Management Program Management Office works with category management teams to develop profile reports that track the progress of each team toward the goals and targets outlined in their strategic plans. The Acquisition Gateway explains how each agency’s profile displays its spending obligations within the 10 categories by SUM maturity tiers and shows how moving spending from soon-to-expire lower-tier contracts to best-in-class contracts would improve an agency’s Spend Under Management ratio. Marshalling spending obligation
data to drive best-in-class contract use in this way also begins to address key lessons that the Government Accountability Office drew from the low adoption of strategic sourcing. The auditors found that reporting on agency-specific targets distinguishes category management from strategic sourcing’s lack of enforcement mechanisms.\footnote{U.S. Government Accountability Office. Federal Acquisitions: Congress and the Executive Branch Have Taken Steps to Address Key Issues, But Challenges Endure, GAO-18-627, September 2018. Available at: https://www.gao.gov/assets/700/694457.pdf}

**How Agencies Are Changing Their Buying Behavior.** In response to the use of strategic plans, targets, and tracking reports, agencies are beginning to change their buying behaviors. The Treasury Department’s decision to end its Treasury Information Processing Support Services 4 contract is an example of the effect of the push to use best-in-class contracts. The IRS, a sub-component of Treasury, announced the shift in a February 2018 notice to its vendors saying: “The Department of Treasury established mandatory policies to utilize best-in-class (BIC) contracts for information technology services and products to the maximum extent practicable.”\footnote{Pragmatics, “To: TIPSS-4 Vendors,” Feb. 2, 2018. Available at: http://www.pragmatics.com/contract-vehicles/federal-civilian-solutions/tipss-4/}

Similarly, the Air Force established a memorandum of understanding with GSA in June 2018 to move its Network-Centric Solutions-2 contracts to GSA’s IT 70 Schedule in the form of blanket purchase agreements (BPAs). The move was “aligned with [OFPP’s] guidance to use BPAs where possible in order to utilize category management techniques, leverage federal buying power, and conserve contracting personnel,” the Air Force noted.\footnote{William E. Marion, Memorandum for All MACOM-FOA-DRU/CC, “Information Technology Acquisition-Use General Services Administration Blanket Purchase Agreements-Action Memorandum,” August 20, 2018. Available at: https://www.netcents.af.mil/Portals/30/documents/NETCENTS-2/Documents/SAF%20GIO%20Memo%20-%20IT%20Acq%20Memo%20-%2020Aug%202018.pdf?ver=2018-09-25-142915-923}

Other bid solicitations are being cancelled after agencies discover or are told the proposed contracts duplicate existing best-in-class contracts or other multi-agency deals.

As of October 2018, the Office of Management and Budget reported that governmentwide targets for best-in-class contracting, cost avoidance, and small business utilization have been met or exceeded. However, total spend under management obligations through June 2018 were $8.5 billion lower than in June 2017, and the effort to move spending to contracts using category management principles was not on track to meet its end-of-year goal.\footnote{U.S. General Services Administration. Executive Summary Dashboard, September 2018, Category Management & Best-in-Class, Acquisition Gateway, Updated October 2018. Available at: https://hallways.cap.gsa.gov/app/#/gateway/professional-services/23372/category-management-best-class}

The December 2018 CAP Goal quarterly progress report showed SUM obligations for 2018 were $5 billion below the 2017 total for the same period, missing the 2018 goal by $1.5 billion. However, the December numbers reflect a three-month reporting lag—complete 2018 totals will not be reported until early 2019. Best-in-class spending for 2018 had exceeded the year’s goal.\footnote{OMB, President’s Management Agenda, Category Management Cross-Agency Priority Goal.}

In summary, the first four years of the U.S. federal government’s category management initiative were marked by a consistent focus across two presidential administrations on reducing the number of federal contracts and giving special attention to the IT spending category. Category management in the United Kingdom, though further advanced in years, followed a similar trajectory, while diverging in strategy, comprehensiveness, extent, and effect.
Insights from the United Kingdom, Lessons and Recommendations for the United States and Other Countries
The U.K. experience shows that, in time, a government category management strategy can deliver efficiency gains, improve mission outcomes and savings, reduce total costs of ownership, realize more effective achievement of policy goals, and build a more effective supply base. The U.K. case study shows that the most gains are possible when a category management initiative is undertaken in the context of a unified, center-led, and broadly communicated overall procurement strategy.

The 2004 Gershon review’s early call for government to buy as an enterprise, rather than a collection of individual units, ultimately led to the 2010 adoption of the category management and centralized buying initiative. The centralization push ultimately ebbed, but the category management initiative brought a structured, disciplined approach to procuring common goods and services through an enterprise-wide integrated purchasing and supply strategy. That initiative:

- Produced the first fully accurate and reliable total for government contract spending.
- Made spend analysis continuous and a cornerstone for an outward, market-facing methodology of aligning procurement to supply market trends. These practices began to transform the procurement corps to become more like commercial buyers.
- Illuminated how much of what was being bought using which contracts, by whom, from whom, and for how much, cracking open spending patterns and pricing differentials. This gave government new leverage as a single, much larger and more powerful purchaser than it previously had understood itself to be.
- Segmented common spending into categories and applied appropriate, but different, approaches and tools to each.
- Brought spending categorization, which opened the door to market and supplier analysis and strategic sourcing, enhancing the government’s ability to negotiate, choose the most effective contracting approaches, and manage suppliers and contracts.
- Enabled demand management by category teams, which challenged or aggregated requirements, promoted reuse as opposed to buying, and standardized configurations and services to reduce complexity and cost.

As a result, category management changed how the U.K. government understood its spending and its power in markets and with suppliers. It revealed the supply chain cost drivers that resulted in the prices it paid, the amount its own procurement practices and behavior added to the bill, the importance of logistics and distribution efficiencies, and innumerable other aspects of third-party purchasing. The procurement methods and organizations of today are profoundly different from those of 2005. The fundamental change-maker was the premise that if government analyzed its “spend” centrally and organized it strategically, it could deliver more policy results and services at a lower cost.

As the world’s longest-running category management program in a large and complex government, the U.K. initiative offers lessons and cautions for the U.S. program. The U.K. government’s response to the financial crisis bolstered category management implementation. But it also received support from and supported other activities driving management improvement and cost reduction, such as spending controls and the digital-by-default agenda. The U.K. experience demonstrates that success hinges on developing, communicating, and driving a unified government procurement strategy across the public sector, providing a category management operating framework, and addressing the totality of procurement expenditure. Doing this requires high-level governance, an energizing and focused vision, powerful and dedicated leadership, and an acquisition workforce educated and empowered to determine where and how best to gain not just lower costs, but value, for the government.
Differences Between the U.K. and U.S. Approaches to Category Management

Now entering its fifth year, the U.S. category management program is less than half the age of its British counterpart. The British initiative was rooted in a long history of prior collaborative procurement efforts and catalyzed into being by the government’s massive budget cuts following the 2008 global recession. Thus, it is not surprising that the U.S. program still is finding its feet.

Unlike the U.K. effort, the U.S. program was not undertaken in the context of a large-scale transformation of a governmentwide procurement strategy—and has not had a powerful, well-resourced home or a driven and persistent leader with broad governmental authority to force action. Furthermore, unlike the U.K. effort, the U.S. program has not drawn extensively upon category management expertise from the private sector for its leadership. As a result, the program retains a U.S. government orientation, rather than the more market-facing character the U.K. effort assumed over time. There are other differences as well:

- In the United Kingdom, individual departments and agencies have greater ownership of the initiative and have developed their own category management programs and staff. In contrast, U.S. government category knowledge and management experience reside mostly within two central agencies—the Office of Management and Budget and the General Services Administration, and the staff of the category management teams.

- In the United States, category management relies heavily on contract consolidation. This has so far resulted in scant sharing of market and supplier intelligence and no effort to collect or analyze true spending data at the agency level. In addition, unlike the U.K. program, U.S. category management is not connected to other reforms, nor is there a central effort to manage procurement to deliver on other governmentwide policy goals.

U.S. federal agencies are, however, beginning to feel pressure to prove their procurement spending is increasingly being conducted via category management principles. For example, the category management program management office at GSA is providing agencies with dashboard displays of their Federal Procurement Data System data, showing how their obligations are divided among suppliers, the extent to which they are using BIC contracts, when their non-BIC spending is expiring, and more. The online Acquisition Gateway also now supplies playbooks on how to find and move agency contract spending to best-in-class contracts.

By driving federal agencies to analyze and rethink their spending behavior, the U.S. category management program sets the stage for further categorization and spend management. By consolidating contracts, it gains greater ability to manage supplier performance and identify and focus on fewer superlative suppliers. Consolidation also enables government to deliver more guaranteed spending to the best performing contractors, giving them a greater stake and government more negotiating power. Similarly, spend management and contract consolidation should deliver greater intelligence about the largest cross-government contractors, enabling more effective and synergistic supplier relationships and performance management.

The next section details insights and lessons from the U.K. for the U.S. In addition, we lay out a high-level roadmap for other governments interested in improving their procurement approach leveraging these lessons.
CATEGORY MANAGEMENT IN THE PUBLIC SECTOR: GETTING STARTED

The U.K. is fairly advanced in its implementation of category management and the U.S. is closing the gap. But what about those governments—national, state, or local—that may be just beginning a category management initiative? Following are some insights from those already down the road:

1. **It’s not just a process.** Leadership needs to understand that category management is not simply a procurement method, but a program for delivering an enterprise procurement strategy for obtaining the capability required to accomplish a government’s overall strategy for achieving policy and mission goals.

2. **Top leaders must own it.** It cannot succeed without endorsement, support, and active engagement by dedicated, highly visible top-level leadership and participation by stakeholders across an entire agency or organization—otherwise internal resistance will stymie action.

3. **It shouldn’t be a freestanding initiative.** It should be embedded in a governmentwide procurement strategy that includes governance and performance management and is aligned with policy, regulations, and legislation.

4. **People matter.** It needs to be linked to workforce capability and capacity improvements.

5. **It must be market-facing.** It cannot be oriented to the government acquisition lifecycle or procurement practices or the way government is organized.

6. **It begins with spend analysis.** The baseline is knowing currently how much of what is being bought, using which contracts, by whom, from whom, for how much.

7. **Analyze and sort spending into categories.** This is done in order to:
   - Set targets for the extent of use of category management by agencies.
   - Reveal which procurement approaches are best for engaging companies in different category markets.
   - Illuminate the cost of having multiple agencies buying the same or similar goods and services from the same suppliers at different prices, terms, and conditions.
   - Enable government to act as a single customer and eliminate duplicative contracts.
   - Aggregate demand across agencies to win lower prices and better terms.
   - Build understanding of governmentwide demand in order to standardize on one or a few configurations to reduce unit, deployment, maintenance, and repair costs.
   - Unearth the total lifetime cost of owning assets and the cost of government procurement practices.

8. **Analytics are not freestanding, they must tie to mission.** Procurement executives cannot analyze spending independent of understanding their agency’s program objectives and current methods and capabilities for achieving them.

9. **Use demand management to challenge agencies’ perceived requirements.** Challenge agencies’ requirements for new products and services through demand management to help reshape purchases, reduce unnecessary ones, and acquire innovation.

10. **Category teams must include a mix of skills and backgrounds.** This is critical to ensure business acumen, market and mission expertise, capability in communication, negotiation, and stakeholder and supplier management.

11. **Conduct supplier and market analyses.** This will provide the information base to support capitalizing on supply chain value, choosing the best suppliers, and mitigating risks of supply chain disruption.

12. **Include a supplier relationship management component.** This will ensure procurement practices are aligned with market and company characteristics, set appropriate levels and types of engagement with contractors, help attract high-quality providers and manage their performance, and support contract and performance management to ensure contractors deliver.
Six Key Insights with Recommendations for the U.S. from the U.K.
Category Management Initiative

Given the greater maturity of the U.K. effort, following are six key insights and recommendations from the U.K.’s category management initiative that could help the U.S. program develop more quickly and deliver more effectively.

Insight One: To ensure the category management initiative is sustainable, it should be integrated into a broader governmentwide procurement strategy.

The U.K.’s category management initiative gained strength and compliance in part because it was the operational framework for achieving a broader transformation of the U.K. government’s procurement system. This comprehensive procurement transformation was powered by a unified efficiency and effectiveness strategy that both housed and reinforced category management and built stakeholder cooperation. The combination of a governmentwide efficiency strategy, the use of the bully pulpit, and cabinet-level endorsement of the Efficiency and Reform Group’s efforts served initially to sustain procurement transformation and category management by overcoming departmental resistance.

The U.K. effort started with an inventory of existing contracts and market-intelligence gathering effort, which informed the effective implementation strategy. As part of its procurement strategy the United Kingdom also invested in developing skills in market intelligence-gathering, analytics, supply chain, value analysis, and supplier relationship management.

The U.K. Experience to Date. The burning platform of global financial crisis was just the sort of galvanizing event that could focus government and create, at least for a time, clarity of intent and strategy. Halting the hemorrhaging of government spending and rescuing a faltering economy were simple, urgent goals. The Coalition Government built a powerful central organization—the Efficiency and Reform Group—to control and cut spending while improving operations. The creation of the Efficiency and Reform Group and its stand-up of both the Government Procurement Service (later renamed the Crown Commercial Service) and the Government Digital Service demonstrate the value of central leadership and strategy. The Efficiency and Reform Group pursued both transformation of governmentwide procurement and transition to digital service delivery. It effectively pushed those goals through central government agencies and the wider public sector using category management as a key delivery approach.

One of the signal successes in winning broad departmental cooperation in the use of category management tools, such as spend analysis and supplier and performance management, was enlisting the support of C-suite executives and their councils. The Office of Government Commerce shaped the environment for and supported the first communications and cooperation among central department commercial directors. The Efficiency and Reform Group picked up those efforts and the Government Procurement Service continued them, courting and winning the backing of the Chief Information Officers Council, going so far as to use GPS’s fees to fund the Public Service Network long sought by CIOs. Behind every effort to win over U.K. departments’ support loomed the mission requirement to drastically reduce spending. And continuously in the background, the Efficiency Review Group was taking direct action to achieve spending cuts and increased government efficiency through its procurement and IT organizations.

85. Shields interview with the author.
The U.S. Experience to Date. The U.S. category management program lacks an anchor in a broader acquisition strategy or a powerful central enforcement authority. The program is seen by many as little more than enhanced strategic sourcing and as an incursion on agencies’ independent purchasing authorities.

The U.S. program has been enacted with few mandates and little enforcement authority. The mandated laptop/desktop computer buying regime, for example, is difficult to control and monitor because spending, and therefore spend data, lives in three separate governmentwide contracts run by three different agencies that answer to other agencies and to Congress for funding, not to the Category Management Program Management Office and the Office of Management and Budget procurement policy office. The category management program key performance indicators have only just been fully fleshed out in 2018 and they have not been linked to other ongoing procurement reforms. It also is not clear which organization has the authority or enforcement mechanisms to drive improved scores.

Lessons for the U.S. The U.K. experience shows that introducing a comprehensive procurement regime powered by a unified strategy driven across government can be transformative. Enacting a category management operational framework that is outcome-focused can help deliver on broader government policy priorities.

Based on the U.K. experience, for a category management program to take root government-wide, it should be driven from a central organization with the authority and power to enforce it. It gains credibility by being associated with a solution to a national emergency, but that is not enough to sustain it against the resistance of departments attempting to assert their own procurement prerogatives against central direction. The enhanced enforcement of the U.K. program beginning in 2010 was seen as bitter, but necessary, medicine at the height of the financial crisis. It aroused departmental resistance, however, even as it helped achieve the efficiency agenda.

In this time of renewed acquisition reform fervor in the United States—witness the Section 809 Panel on Streamlining and Codifying Defense Acquisition, three years of acquisition reforms in the National Defense Authorization Acts, the critical role of procurement innovation in the 2018 National Defense Strategy, and more—creating a powerful, White-House-backed, central strategic body with resources to “bring together expertise from across departments on a large scale,” as the U.K.’s Efficiency and Reform Group did, could buttress, consolidate and speed procurement reform.

Taking such action also could help strengthen and speed other governmentwide initiatives, such as IT modernization and digital services, rapid innovation, and improving supply chain management—all of which depend significantly on improved procurement. A well-resourced power center supported by the White House, key legislators, and agency leaders should drive the procurement strategy. The General Services Administration could play a delivery role similar to the U.K.’s Government Procurement Service, by focusing on creating value for departments, identifying and contracting with the best suppliers for common categories, running true spend analytics on government’s behalf, and, where practical and appropriate, serving as central buyer for common goods and services. The e-commerce portal now in the works could then truly become a tool in service of an overall acquisition reform strategy and category management.
Recommendation One:
Senior administration leaders should work with Congress to jointly pursue—along with the Category Management Leadership Council and the other interagency management councils—a more centrally-led and outcome-focused approach to implementation of category management as a part of a broader strategic transformation of the federal acquisition system.

Insight Two: Executing a governmentwide procurement strategy takes empowered, persistent leadership.
Sweeping and deep government management change, such as procurement transformation, requires both political sponsorship and powerful executive leadership. In the U.K., the financial crisis guaranteed political support for government spending cuts. But it took the vision and relentless leadership of the leaders of the Efficiency and Reform Group, the Government Procurement Service, and the Digital Service to frame that imperative with category management, digital government, and civil service reform initiatives. In the U.S., the context for procurement reform has been less urgent and less centralized.

The U.K. Experience to Date. The U.K.’s experience demonstrates the critical importance of endorsement, support, and active engagement by dedicated and highly visible, top-level leadership and participation by stakeholders across government and throughout departments. In the United Kingdom, the financial crisis guaranteed political sponsorship for government spending cuts. It took the vision and relentless leadership of the newly formed Efficiency and Reform Group to frame that imperative within an integrated set of reforms that included category management, digital government, and civil service. And it took an autocratic, ambitious, brash, experienced political infighter like Francis Maude to drive the vision, create the apparatus to enact it, and unceasingly flog those entities and government’s political leadership to execute the plan.

The Efficiency and Reform Group was helmed by Maude, a powerful leader who was the equivalent and more of the director of the U.S. Office of Management and Budget. He led the creation of this new central organization to enact procurement strategy. By disposition and experience, Maude was singularly well suited to the moment, with its need for a champion of management transformation and a provider of political protection and prodding. He was a seasoned political veteran with more than three decades of experience inside and outside government (including the Treasury, Cabinet Office, and Foreign Office) and a trusted confidant and adviser to prime ministers.86

Maude also relied on dogged and bold leaders within Efficiency Review Group and the structures it created. The first government chief procurement officer, John Collington,87 an energetic believer in improved procurement capability and use of small and medium-size enterprises, was a particularly engaging and effective proselytizer, preaching the transformation message in his Scottish brogue.88

When asked soon after his appointment in 2011 how the Efficiency Review Group’s efforts would be different from all the previous procurement initiatives, Collington said, “The most significant change—and why we believe it will work—is direct political involvement and willpower. It’s not just senior civil servants, or even Francis Maude—this has real Cabinet level engagement and drive.”

In addition, David Shields, who became managing director of the newly formed Government Procurement Service in 2011, was known as seasoned, delivery-focused, capable, dynamic, driven, and tough. His experience in the public and private sectors gave him a clear vision for transforming the Government Procurement Service into a central procurer leading category management implementation. He also possessed the purchasing expertise, change management skills, and strategic insight to conduct a successful agency transformation.

Furthermore, Shields proceeded to build a cadre of experienced private sector hires and civil servants who were expected to take an entrepreneurial approach to procurement. Each category team had spending and savings objectives. They were freed to deal directly with suppliers, visit contractor facilities, use e-auctions, and spot buy, in addition to awarding more traditional contracts, and task and delivery orders on governmentwide framework contracts. The second government chief procurement officer, Bill Crothers, credited Shields with turning the Government Procurement Service “into one of the largest centralized procurement operations in Europe and vastly improving the quality of government spend data.”

The U.S. Experience to Date. U.S. procurement transformation efforts have lacked the extreme burning platform of the U.K. government’s austerity drive. Category management was introduced late in the Obama administration and it was not tightly bound to a comprehensive efficiency strategy with associated procurement policies. In addition, leadership for the U.S. initiative is split between two agencies, the Office of Management and Budget (OMB) and the General Services Administration (GSA). Category management is a key effort for both, but the primary focus of neither.

President Obama met with members of the Category Management Program Management Office and GSA's Federal Acquisition Service twice in February 2015 to discuss the newly created initiative, but he never became its public advocate nor explained how it supported his broader agenda. OMB’s Anne Rung and her career deputy, Lesley Field, along with the program management office staff and category leaders, did yeoman’s duty in establishing a foothold for the program. Rung left government in 2016. As a result, during the 2016 presidential transition and after, implementation of the initiative fell to a small cadre of career staff at OMB and GSA.

As in the Obama administration, category management has been designated a cross-agency priority goal, and it is part of the President’s Management Agenda in the Trump administration. It is not an operational framework for delivering results in the context of a broader governmentwide procurement strategy.

As of mid-February 2019, the position of administrator of OMB’s Office of Federal Procurement Policy (OFPP) had been filled by the career deputy, Lesley Field, who serves as a co-lead for the category management initiative. This is fortunate inasmuch as Field played a key role in initiating the program and nurtured it and advocated for it through the presidential transition and now is implementing it under the direction of OMB Deputy Director for Management Margaret Weichert. However, as a civil servant acting in a political appointee’s role, Field lacked the authority that attaches to a politically appointed administrator carrying presidential and Senate imprimatur. What’s more, the OMB policy office has few enforcement tools to compel departments to comply with its dicta. With little budget and few operational resources, OFPP relies on GSA to fund category management implementation through the program management office and as executive agency for six of the 10 categories.

**Lessons for the U.S.** The urgent circumstances under which the United Kingdom implemented its procurement reforms and its category management initiative did not exist in the same way in the United States. As a result, the U.S. government was not driven to implement its own initiative as quickly or as deeply. It did have competent and committed leadership, and an institutional commitment to sustain the initiative via its designation as a cross-agency priority goal as part of the President’s Management Agenda. However, without a political champion at its helm, the U.S. program has not yet received the same level of highly visible support, involvement and continued attention from top political leaders—which U.K. leaders say is vital to overcome agency resistance. Without vital leadership buy-in from the top of government, the U.S. program also has been less able to foster collaboration across organizational boundaries, bring in expertise from across departments, and focus stakeholders on common issues core to a government-wide business agenda.

- **Recommendation Two:** Following on Recommendation One, OMB and GSA should work with Congress and agency leaders to muster support, leadership, and governance for a governmentwide procurement strategy that drives broader and faster adoption of category management, ties it more closely to mission and policy goals, and integrates it with other acquisition reforms into a single enterprise procurement strategy.

**Insight Three:** Using a strategic supplier management approach can result in greater value from suppliers that contract with multiple agencies. The U.K. government has adopted a strategic supplier management program that includes a stringent performance monitoring and reporting scheme for individual suppliers that hold a significant number of contracts with multiple government agencies. Identifying, monitoring, and managing the performance of government’s largest multi-department suppliers results in better data and negotiating power for the government. In addition, bringing in industry executives for temporary tours of duty as Crown Representatives to participate in this program supports government procurement staff with business experience and insight.

**The U.K. Experience to Date.** The Efficiency and Reform Group’s transformation of procurement began with a focus on the government’s strategic suppliers—those companies that have significant contracts with multiple government departments. Early on, the Cabinet Office instituted a practice of meeting with top executives at government’s largest contractors to negotiate contract cost cuts via memoranda of understanding. Often, the government negotiating teams included executives from other companies or industries to back up the civil servants with business experience and insight.
Some of these executives later were named Crown Representatives, a corps of industry leaders and highly capable government procurement officials charged with presenting the single face of government in negotiations with strategic suppliers. The Crown Representatives were charged with negotiating lower prices and coordinating cross-government issues and opportunities with suppliers that sold in excess of £100 million a year in products and services to more than one department. The Cabinet Office Commercial Relationships Board, which oversees the Crown Representatives, is responsible for reviewing strategic supplier designations, assessing designees’ performance, and resolving performance shortfalls.

Agencies must report every six months on strategic suppliers’ performance on contracts worth £20 million or more. The reports cover delivery delays; failures to meet contract scope, quality, or price requirements; material breaches; and concerns about performance or customer relations. Strategic suppliers are required to agree to the collection and sharing of this information across government.

This monitoring and reporting scheme has resulted in better data and negotiating power for the government. Bringing in industry executives as Crown Representatives has driven a level of informed oversight and honesty beyond what government can exert on its own. Crown Representatives share information about their assigned strategic suppliers across agencies, providing negotiating leverage and supporting performance management. They often spot and alert departments to emerging problems and share what they glean about suppliers’ plans.

The United Kingdom is not alone in designating certain supplier relationships as strategic. Many companies do, too. These relationships are characterized by high-level, longtime commitments and investment from both buyer and supplier, whose systems and practices often become increasingly integrated. They share innovations, jointly invest in solving problems, and sometimes set up new organizational structures to develop and market new products. Governments, of course, have regulatory and legal frameworks requiring continuous competition and more arms-length behavior toward suppliers.

**The U.S. Experience to Date.** The United States has nascent efforts similar to the U.K.’s for strategically managing partnerships with suppliers that have large contracts with multiple agencies. But the U.S. government has yet to fully leverage the scale of its spending with these companies and to manage them using performance intelligence from all their agency customers.

A number of large, multi-agency suppliers have opted out of dealing directly with the government. In the area of IT especially, they conduct business primarily through resellers. Resellers are among the leading suppliers in the U.S. IT category. The top five accounted for $1.7 billion in sales through the IT schedule alone in 2015. Large supplier sales through resellers add cost and can mask the true extent of strategic suppliers’ business with government.

Reliance on agencies to collect and analyze their own information about strategic suppliers, such as software makers and resellers, for example, limits analysis of cross-government usage and other patterns that could be centrally collected and used in managing strategic suppliers (see also Insight Five).

**Lessons for the U.S.** Moving to a strategic supplier management regime like the United Kingdom’s could provide much-needed intelligence about and leverage with large suppliers. The federal government has historically been limited in its ability to incentivize key suppliers to engage in the kind of strategic relationships more common in the private sector because it is often unwilling or unable to jointly invest as an enterprise with or commit to suppliers for the long term.
The federal government’s long and extensive existing relationships with a small group of suppliers offer a basis to establish a form of strategic engagement. In the United States, 80 percent of the 2016 Top 100 had been active cross-government suppliers since 1996. The 39 companies that were Top 100 suppliers both years could be prime targets for strategic supplier management. Offering such companies access to key decision-makers responsible for governmentwide policies or programs, for example, could incentivize them to invest more deeply in solving cross-agency procurement challenges.

By adopting the model of the U.K.’s Crown Representatives initiative, the U.S. category management program could gain business acumen and knowledge to help even the odds in negotiation with its largest contractors.

**Recommendation Three:** OMB and GSA should coordinate agency efforts to implement purposeful, management of strategic U.S. cross-government suppliers. Adopting such a strategy could help enhance a consistent approach to large, longtime suppliers, and improve the negotiating power and business acumen of U.S. category teams and procurement staff. Designating a corps of industry executives to support such a program would add experience and knowledge to the effort.

**Insight Four: Counting subcontracts enables better visibility, oversight, and deployment of spending with small businesses.**

The U.K. government has set a socio-economic goal of spending 33 percent of its contract dollars with small and medium-sized enterprises (SMEs) by 2020. The SME goal includes both direct spending with SMEs and indirect expenditure with SMEs in the supply chains of larger contractors. In fiscal year 2016/17, 22 percent of U.K. government procurement spending went to SMEs, 10.5 percent of it in direct spending, and 12 percent in indirect spending.

Accounting for dollars in the supply chain is difficult and complicated. Nonetheless, including SME subcontractors in small business spending initiatives has made accounting more visible and enabled better oversight when small companies receive government funding. Using subcontracts to help meet agency and overall small business goals could benefit the U.S. government as well.

**The U.K. Experience to Date.** Including SME subcontractors in SME spending initiatives provides small and medium-size businesses credit for a type of spending well suited to them. The U.K.’s target for spending with SMEs is significantly higher than the U.S. government’s small business contract spending goal of 23 percent. However, expenditure with companies in larger firms’ supply chains makes up 60 percent of the U.K. government’s annual spending with SMEs.⁹⁴

A survey of large suppliers in 2011/12 developed an estimate of the amount the government spends with SMEs throughout the supply chain. The National Audit Office has advised the government to introduce prime contractor conduct codes and enforce prompt payment rules

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in sectors where SMEs predominate in the supply chain. U.K. government departments currently do not have systems that integrate information on contracts, payments, and contractor performance in areas not covered by existing category management frameworks, so spending with SMEs outside those contracts is not fully captured. As a result, the audit office has recommended that the government build an integrated digital procurement platform to capture direct and indirect SME expenditures beyond the commonly purchased goods and services covered by category management spend analytics.

The U.S. Experience to Date. The U.S. government does not count subcontractors when calculating its spending targets for small business contractors. USASpending.gov now reports contracting data for first-tier subcontractors, but it does not identify the type of subcontracting plan and thus cannot currently differentiate small subcontractors from others. In addition, it does not collect data about subcontractors below the first tier. This is limiting in the case of tracking the extent of small business subcontracting, which often is found in deeper tiers of large contractors’ supply chains. Thus, the Government Accountability Office reported in 2014 that there is not a feasible way to link small business subcontractors to prime contracts using existing contract reporting systems.95

Lessons for the U.S. The U.S. government could, like the United Kingdom, consider expanding its small business reporting regime to small businesses in the supply chains of larger suppliers in order to provide greater visibility and oversight of small business spending. To do this, it could create a platform for all third-party spending and base it on accounts payable data. Counting small subcontractors at the first tier of supply chains and below would require the kind of improvements in data collection that also would be required to move the U.S. government from basing its “spend” management on contract obligations to analyzing accounts payable data (see Insight Six). Given that the federal government has neither capability now, it might expand on the idea of an integrated digital platform for all small business spending to include all spending, common or not, drawn, cleansed, and rationalized by a commercial spend management provider from all agencies’ accounts payable data.

Doing so would produce a more complete and nuanced picture of federal spending with small businesses, providing insight as to which categories of common and other expenditure are best suited to them. Then, as the software subcategory team did in the United Kingdom with G-Cloud, U.S. category teams could use this information to identify markets where small businesses flourish and then construct contracts to enable government agencies to quickly and easily reach them.

**Recommendation Four:**

While the U.S. category management program currently focuses on prime vendor dollars, counting subcontracts could improve small business spend management and outcomes and illuminate supply chain challenges and opportunities.
Insight Five: Leveraging uniform usage data, and standardizing on fewer versions of common goods can drive savings.

The U.K. standardized data and leveraged common inventory within and across each of its categories. The value of standardizing inventory data is best exemplified by the U.K. Government Procurement Service’s efforts with software management. In that case, software subcategory managers built on a prior history of information sharing, spurred by user groups and Crown Representatives to:

- Standardize software data
- Use spend analysis to negotiate with resellers and publishers as a single government buyer
- Create a government-wide software exchange
- Help departments incrementally inventory their licenses by vendor size and type

The U.K. Experience to Date. U.K. software management strategy was spurred by the creation of the role of Crown Representatives to manage strategic suppliers. Rob Wilmot, a founding executive of Freeserve, once the U.K.’s largest Internet service provider, served as the government’s Crown Representative for software products from 2013 to 2015. He brought a sophisticated understanding of total lifetime software costs to the government buyer community. This knowledge was important for departments that had been far too willing to individually accept discounted prices for software without factoring in the lifecycle costs imposed by implementing and maintaining these applications. The agencies also gave little thought to whether they would receive better pricing by buying in concert with other departments.96 Wilmot helped support more sophisticated software demand management by requiring government buyers planning to acquire software to first consider what their departments already owned, where it was being used, whether it was fully in use, and whether they could make better use of existing stock. This information gave departments greater leverage in negotiating with application resellers, systems integrators, and software publishers by exposing opportunities to eliminate unused and misused licenses to reduce maintenance costs.97

The Government Procurement Service’s software subcategory managers built on this history of information sharing. They helped departments inventory their licenses, standardize software data, use spend analysis to negotiate with resellers and publishers as a single government buyer, and create a government-wide software exchange. The subcategory team discovered that conducting a single, uniform, all-encompassing inventory was overwhelmingly costly to departments in time and staff resources. They found greater success at less cost in successively requesting inventories by sets of vendors, e.g., the largest sellers to government, the most difficult to manage, etc. This allowed the team to analyze early rounds of inventory data and use it to win concessions from suppliers, which, in turn, built buy-in among departments. The team also found it was better to set minimum, government-wide software data standards before centrally collecting inventory information from departments. In some cases, the U.K. software subcategory adopted industry data standards and adapted them to add government-specific data fields.

The standardized software inventory data became the information base for a host of other software licensing management practices, including:

- Negotiating with the largest suppliers separately because their license pricing, policies and practices differ
- Including in each negotiation specialists with expertise in that company’s practices

97. Leicester interview.
• Discovering the margins that software resellers were charging and ensuring those margins were in line with industry standards and the volume of government spending

• Software managers used centrally reported usage data to:
  • Halt or slow buying of underused software
  • Upgrade from versions of software no longer supported by their publishers
  • Determine which agencies had large inventories of unused licenses from which vendors and publishers
  • Build into software contracts the right to share licenses across the entire government
  • Establish a government software license exchange and require agencies to check it before buying new licenses
  • Purge, sell, or redeploy unused licenses using the exchange
  • Continually monitor the governmentwide software inventory to share information, e.g., reminding agencies to upgrade and broadcasting news about software problems

Software reuse supported demand management by enabling the Government Procurement Service to point departments first to the exchange rather than the market to meet expanding or new license requirements. Agencies with surplus licenses reduced costs by transferring them to other agencies, which picked up the maintenance fees but avoided the higher cost of new licenses. Reusing licenses produced considerable savings. “We have seen a reuse program for a single brand of software produce annual savings of £5.8 million in a public-sector organization with a £150 million budget,” said Tony Crawley, formerly a top government top software licensing advisor.98

The U.S. Experience to Date. The U.S. federal government has identified software license management as an opportunity for significant savings and efficiency. The government annually spends about $9.1 billion on commercial software, through more than 50,000 separate transactions. A typical federal organization spends 30 percent more than it needs to for software.99

The urgency of improving software-licensing management was highlighted in 2014 when the U.S. Government Accountability Office found that only two of the 24 largest departments had adequate software licensing management policies. The majority of agencies lacked comprehensive license inventories and none was analyzing data to identify opportunities for software licensing management savings.100

Recent statutory mandates and Office of Management and Budget policy require federal departments and agencies to create software license inventories and follow best-practice license management practices. However, adoption has been slow. It has improved since a software licensing score—reflecting progress on establishing and updating license inventories and using usage data to make cost effective decisions—was added in 2017 to the biannual report card on the implementation of the Federal IT Acquisition and Reform Act (FITARA). In December 2018, 18 of 24 agencies received “A” grades for software licensing, more than double the number in May 2018.

The December 2018 Category Management Cross-Agency Priority (CAP) Goal quarterly progress report noted that two key software management milestones were at risk of not being met. One requires agencies to compile an inventory for 80 percent of their software spending by Spring 2018. The other milestone requires them to have implemented software centralization plans by the end of 2018. Regarding the missed milestones, the CAP goal report says, “In August 2018, 21 of the 24 CFO Act agencies have reported that they met this milestone. The ESCT [Enterprise Software Category Team] is continuing to work with agencies to meet this goal” by providing training and technical assistance.101

The ESCT comprises the software managers from the 24 CFO Act agencies. It has educated agencies about software management tools and assisted in getting tools onto GSA’s IT 70 schedule to make them easier to acquire. GSA's shared, fee-based software license management service will begin training multiple agency groups in 2019. Training will be free for the first group of eight agencies targeted for their low FITARA software scores. The service began in 2016 and uses agency-owned inventory tools to develop software utilization dashboards. It also provides access to tools, templates, and training to help agencies set up management programs. The ESCT also is working with the Defense Department Enterprise Software Institute to provide software management training governmentwide.102

**Lessons for the U.S.** The federal Enterprise Software Category Team is working with agencies on meeting their software milestones. But given that some agencies have lacked the tools and resources to conduct inventories or central software management, adopting the U.K. phased, vendor-based inventory approach could help.

While the U.S. category management software license policy requires each agency to produce a license inventory, it does not impose data standards or a reporting template. Agencies do not report their inventory data centrally. Instead, the category management program uses the Federal Procurement Data System to identify the most commonly bought licenses. This approach means that the ESCT manages the software category without true spending data and does not aggregate spending and usage patterns across agencies. As a result, agencies, bureaus, and vendors can report their software inventories using different discovery tools—as they do at the Homeland Security Department—and in different formats, preventing them from maximizing the power of the data through sharing it within departments, let alone across them.

Standardizing reporting data so the Enterprise Software Category Team or the Category Management Program Management Office at the General Services Administration could perform governmentwide analysis for agencies could pave the way to negotiating license reuse with large publishers and resellers en route to standing up license exchanges. This could lead to more exchanges within departments—on the model of the Justice Department’s software “closet”—and, with congressional support, across government.

**Recommendation Five:**
The U.S. category management program should standardize data and inventory common goods in each category where that is appropriate, and then leveraging that information on behalf of agencies to conduct analytics on use, pricing, best practices, as well as to issue warnings of problems with standard versions.

102. Jennifer Kuk, Office of Procurement Policy IT Category Management Specialist, interview with the author
Insight Six: Category management requires managing spending, not just obligations.

Detailed, accurate, and current accounting that enables spending visibility and control has led to U.K. government price and demand management savings and ongoing identification of savings opportunities. In contrast, the U.S. government relies on proxy spending information from a less accurate, poorly categorized database. It could benefit from commercial expertise and collection and analysis of more accurate and timely spending data.

The U.K. Experience to Date. Spending data was the essential foundation for the U.K.’s category management framework. David Shields, the U.K.’s governmentwide lead for implementing category management, brought spend management techniques to government from the private sector and set out to build a governmentwide database. After several false starts attempting to create an analytics capability within the Government Procurement Service, he hired a private sector analytics firm to build the database. In 2012, the company conducted for Shields what it claimed was one of the largest spend analyses ever done at the time, “covering approximately £60 billion in annual spend, more than 500,000 suppliers, and tens of millions of invoices and contracts.”

Shields credited this detailed, accurate, and current accounting of government procurement spending for enabling the spending visibility and control that led to price and demand management savings of £2.5 billion in 2011 to 2012. The continuous reporting also helped the Government Procurement Service identify additional savings opportunities.

The U.S. Experience to Date. The U.S. government has so far been unable to imitate the United Kingdom’s accomplishment. U.S. agencies find themselves today in a data-poor position similar to the U.K.’s in 2010. Many have not marshalled their own accounts payable data. There is no central capability for collecting and analyzing governmentwide spending. Instead, most of the federal government, including the Category Management Program Management Office, relies on the Federal Procurement Data System-Next Generation (FPDS-NG), which wasn’t built for the job. FPDS-NG isn’t organized to enable the entire government or agencies to effectively categorize their spending and analyze it in a market-facing way so they can pursue strategies to drive value within specific industries. Passage of the 2014 Digital Accountability and Transparency Act (DATA Act) raised hope for better, more granular information about federal spending. However, FPDS-NG serves as the source of DATA Act contracts data and the act does not require accounting for what is purchased or how.

Further, in July 2018, GAO surveyed inspectors general about their assessments of the quality of their agencies’ DATA Act submissions. Auditors found only about half of agencies had met the data standards set by the Office of Management and Budget as well as the Treasury Department. In addition, “almost three-fourths of [inspectors general] determined that their respective agencies’ submissions were not complete, timely, accurate, or of quality,” GAO auditors reported.

FPDS-NG cannot track spending. It contains data on contract obligations, not actual outlays. Obligations occur when agencies legally commit to spend money via contracts, purchase orders, and the like. But how much of what is actually supplied often changes after the obligations are made and before purchases are final. FPDS-NG doesn’t draw on agency accounts payable data so it doesn’t record those changes.

In FPDS-NG, contracts are assigned codes based on the predominant product or service in the order, even when it includes a variety of items. “For example, an order for $1,000 of lumber and $500 of pipe would be coded as 5510 Lumber and Related Wood Materials,” according to the FPDS Product and Service Codes Manual.106 The product service code system is entirely government-owned and managed, divorced from industry and has become outdated. In addition, FPDS-NG is known for its questionable data quality, making it more useful for high-level views of trends than granular spending analysis. As the Congressional Research Service noted in 2016, “Decision-makers should be cautious when using obligation data from FPDS to develop policy or otherwise draw conclusions.”107

Lessons for the U.S. Detailed, accurate, and current accounting that enables spending visibility and control has led to U.K. price and demand management savings and ongoing identification of savings opportunities. The U.S. government is relying on proxy spending information from a less accurate, poorly categorized database augmented with some transactional data from best-in-class contracts. It could benefit from commercial expertise and collection and analysis of agency accounts payable spending data. To pave the way for real spend management, the White House could tap one organization to lead development and operational execution of a governmentwide spend analysis strategy to centrally collect spending data from agency accounts payable, analyze it for all agencies using best-in-class commercial applications, and provide it to category teams and agencies.

Recommendation Six:
The U.S. category management program should begin collecting and analyzing agency accounts payable and contract data, in addition to budget obligations and transactional data. A central organization should work with industry partners to collect, standardize, cleanse, and analyze spend data on behalf of all agencies.


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APPENDICES

Appendix I: Building the Case for U.K. Government Category Management 1999-2010

The seeds of U.K. government category management can be found in the 1999 “Review of Civil Service Procurement in Central Government” by Peter Gershon, a well-known businessman, Conservative Party adviser, and advocate of cutting government spending through efficiency improvements rather than reducing services.

Drawing on studies dating back to 1993 and interviews and observations across government, Gershon reported the absence of a governmentwide process for managing suppliers, many of which charged differential pricing to departments as a result. He noted the advantage in a common database of supplier information, including cost bases, and the disadvantage of dependence on a few suppliers in key areas of procurement. Gershon recommended creation of an Office of Government Commerce (OGC) to set governmentwide procurement strategy and policy, develop supplier management, strategically manage suppliers of critical goods and services, measure and benchmark procurement performance, enhance ecommerce, and purchase on government’s behalf where aggregation of requirements offered significant value.

Gershon’s recommendations were accepted and he became chief executive of OGC, a part of HM Treasury. At the same time, The Buying Agency, a fee-for-service procurement organization, was folded into OGC, along with a central IT managed service, to create OGCbuying.solutions, the office’s professional buying arm. The name changed to Buying Solutions in 2009, to emphasize the group’s role as creator of contracts for all departments to use.

By 2004, OGC was said to have saved £1.6 billion through supplier management, aggregating demand on governmentwide contracts, naming departments as lead buyers for groups of agencies, instituting purchase cards, and improved program management. Yet problems persisted, as Gershon noted in a second review, “Releasing Resources to the Front Line: Independent Review of Public Sector Efficiency.” The 2004 report found supply management still lacking, spend visibility low, and procurement staff in need of professionalization and earlier involvement in purchases. Gershon was knighted that year for his work to improve public procurement.

In 2007, Treasury ministers published “Transforming Public Procurement,” a plan for the first fundamental change to OGC. It announced that OGC would drive “the single approach to sourcing” coupled with cross-government category management. OGC was to name either Buying Solutions or the department with the most spending to lead buying in each category. The program enhanced OGC’s power to direct departments to use 12 governmentwide contracts, known as frameworks, for common purchases. The main focus was to drive collaborative procurement by pressing departments not only to use frameworks, but to commit to moving all their spending on common goods and services to the frameworks designated for those categories. In 2007, OGCbuying.solutions ran 180 frameworks, but 25 percent of them carried 90 percent of sales. OGC conducted an analysis of common government spending that year and began providing annual analyses of spending in common categories.
By 2009, these spend analyses allowed the Operational Efficiency Program to find that more than 80 percent of categorized spending was in categories bought by more than one government organization and across more than one sector of government. A minority of spending was in categories bought by organizations in just one sector of government. And even less was bought by a single organization. By then, OGC had divided common procurement into six categories—energy, fleet, office solutions, travel, professional services, and IT—and established a collaborative board to develop category strategies and drive collaborative procurement. Still, the Operational Efficiency Program (OEP) found:

- Spend data was neither assured nor comparable enough to make the case for collaboration across the public sector.
- Spending categories were too high-level.
- Procurement remained highly fragmented across 45 buying organizations.
- Use of collaborative contracts still was too low.

OEP recommended more effective marketing of central category contracts; OGC operation of a governance group to drive coordination and transparency among professional buying organizations; and expansion of the government’s online marketplace to allow buyers to see all available contracts, increase supplier competition, and collect more management information.

A 2010 review of government efficiency ordered by Prime Minister David Cameron provided Cabinet Minister Francis Maude the base case for creating the Cabinet Office Efficiency and Reform Group (ERG), further reorganizing OGC, and institutionalizing category management. The review found that government continued to buy inefficiently as separate departments, and still paid different prices for the same goods. It pinned the blame on the failure to centrally mandate collaborative procurement. A nearly simultaneous National Audit Office report on collaborative procurement made similar findings, calling for management of some categories nationally and for departments to focus their own procurement staff only on strategic spending unique to them, while delegating the rest to the organization managing relevant common categories. This set the stage for ERG spending mandates and controls and tighter central management of procurement.
Appendix II: U.K. Commercial Operating Standards

1. **Blueprints and Resources:** Government will ensure that it has the right workforce to deliver against each department’s pipeline of commercial activity. A key enabler will be that each department will have a signed off blueprint that indicates their expected commercial activity, details grants where appropriate, and sets out their resource and capability requirements for the next three years.

2. **Pipeline and Planning:** Government will prepare and retain a comprehensive view of current and future contracts and commercial activity through a commercial pipeline, refreshed every six months (with major changes updated as they happen), and plan commercial activity in good time.

3. **Senior Responsible Owners and Expertise:** Government will maintain senior engagement throughout the commercial process, with all commercial activity on its pipeline having a senior officer (or “senior responsible owner” if appropriate) appointed or identified. This will ensure that the department as a whole maintains a clear understanding of the requirements.

4. **Early Cross-Functional Analysis of Options:** Government, through widely sourced cross-functional analysis, will consider all relevant commercial options prior to agreeing a sourcing pathway, and produce timely commercial cases with options for appraisal.

5. **Maximizing Competition:** Government will maximize competition by engaging with the market early, and design service requirements that are accessible to as many suppliers as possible (including small and medium-sized businesses where appropriate).

6. **Contracting:** Government will make use of flexible commercial contracts that can adapt to future changes. When appropriate, government will use model terms/standard forms of contracts with minimal amendment.

7. **Contract Management:** Government will ensure the implementation of adequate contract management processes to ensure measurable performance against the requirements throughout the contract lifecycle.

8. **Supplier Relationships:** Government will develop a comprehensive view of its supply chain and apply relevant strategies to manage industry capacity. At a strategic level, government will create and maintain strategic supplier relationship management programs with its highest impact suppliers, both across government and for each department’s commercial portfolio.

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