Buying as One through Category Management

4 November 15

Major John Sharkey
AF Installation Contracting Agency
Enterprise Sourcing Directorate

Reference: Briefing generated from CMLC Gov’t-Wide Cat Mgt Guidance Doc V. 1.0, May 2015 & AFICA Cat Mgt Team
Provide responsive enterprise acquisition solutions to enable efficient and effective mission and installation operations through four core mission areas:

- **MAJCOM EXECUTION AND STAFF SUPPORT**… Virtual staff with presence at eight AF major commands, supporting all with full AFICA horsepower to meet their unique missions

- **INSTALLATION/SPECIALIZED EXECUTION**… Provide contract authority, and supporting tools, templates, training and expertise to enable the success of 77 wing contracting squadrons within major commands

- **ENTERPRISE SOURCING**… Drive strategic cost management and enterprise solutions at all levels... enterprise, regional, and local... with business intelligence, standardized processes and support systems, and through dynamic partnerships with requirements owners

- **CONTINGENCY CONTRACTING**… Plan for and obtain non-organic supplies, services, and construction from commercial sources in support of joint operations, as well as contingency, humanitarian, disaster relief and local emergencies
Overview

• Category Management Background

• Category Management Basics

• Governance

• Operating Model
  1. Category Planning
  2. Category Execution
  3. Category Performance Management

• Way Forward
BACKGROUND
Declining Budgets

- **Funding for installations is on the decline**
  - Installations are warfighting platforms
  - Installation support is a program...cost, schedule, and performance
  - Sustaining the competitive advantage demands increased efficiency
  - Impact to Installations has been significant

- **Acquisition procedures alone are not able to generate required efficiencies**
  - Requiring activities make consumption decisions which drive total costs
  - Paradigm Shift From Budget Execution to Strategic Cost Management

![Obligations by Air Force Installation-Support Contracting Office, FY2010 to FY2014](Ref: AFICA Chart)
Strategic Sourcing Savings Levers

**Rate**
- Getting More For Less

**Process**
- Getting More With Less

**Demand**
- Getting Less

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**Leverage Buying Power**
- Strengthening AF bargaining power
- Price reductions, discounts, rebates, quality or performance improvements, faster delivery, etc.

**Improve Efficiencies**
- Process improvements to reduce internal costs
- Reducing transactions (workload), improving ordering efficiencies, standardizing requirements

**Manage Consumption**
- Demand management
- Eliminating demand, reducing consumption, changing product mix, etc.

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Rate savings are typically short-term;
Process & Demand are long-term w/ larger payback

Ref: AFICA Chart
Cat Mgt CONOPS – March 2014

BICC Purpose:

“to support category definition, category analytics, and identification of improvement initiatives.”

Primary functions:

- Categorize spend
- Analyze spend
- Provide Market Intelligence
- Provide Actionable Business Intelligence
- On-going operational acquisition support
Federal Initiative

• OMB issues “Transforming the Marketplace” Memo, Dec 2014
  • Current Administration – lead paradigm shift
    • Manage entire categories of spend using Category Mgt
  • GSA to support Strat Sourcing Leadership Council (SSLC)
    • Establish implementing principles, policies, guidance
  • Agencies – align/execute category mgt initiative
    • Provide best-in-class category strategies, acq solutions

• Federal level Category Mgt activity immediately followed
  • Feb 15 - SSLC renamed the Category Management Leadership Council (CMLC)
  • Feb 15 - Spend Under Mgt Workshop – OFPP, DoD, Mil Depts, GSA
  • Mar 15 - IT & Facilities Spend Data Call
  • May 15 - Gov’t-wide Category Mgt Guidance document released
  • Oct 15 - Spend Under Mgt Data Call – Extensive list in backup

Ref: AFICA Chart
CATEGORY MANAGEMENT
BASICS
“A management concept the Federal Government is applying to buy smarter and more like a single enterprise. It involves identifying core areas of spend, collectively developing heightened levels of expertise, leveraging shared best practices, and providing acquisition, supply and demand management solutions. The focus is on increased efficiency and effectiveness, lessening costs, and reducing redundancies”
Category Mgt Key Principles

Category Management – the strategic management of cost

- **Categorize spend** - categories align to similar req’ts
- **Assign cost ownership** and authority/responsibility (A BIG Deal!)
  - Manage/improve portfolio costs & performance, shape consumption
- **Develop business intelligence** – drives results
  - Manage demand/standard levels of service, issue policy, strategic contracts

Ref: AFICA
Category Management Goals

• Increase spend under management
• Reduce contract duplication
• Achieve volume savings
• Achieve administrative savings
• Achieve small business goals
• Reduce price variance
• Enhance transparency
• Share best practices
• Create better contract vehicles that lead to smarter purchasing
• Promote consistency

Ref: CMLC Gov’t-Wide Cat Mgt Guidance Doc V. 1.0, May 2015
## OMB Cat Mgt Taxonomy

### Level 1 Category (Portfolio)

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<td>1.1 IT Software</td>
<td>2.1 Business Administration Services</td>
<td>3.1 Security Animals &amp; Related Services</td>
<td>4.1 Construction Related Materials</td>
<td>5.1 Machinery &amp; Components</td>
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<td>2.2 Legal Services</td>
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<td>4.2 Construction Related Services</td>
<td>5.2 Fire/Rescue/Safety/Environmental Protection Equipment</td>
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<td>1.3 IT Consulting</td>
<td>2.3 Management Advisory Services (Excludes R&amp;D 17.0)</td>
<td>3.3 Security Services</td>
<td>4.3 Facility Related Materials</td>
<td>5.3 Hardware &amp; Tools</td>
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<td>1.4 IT Security</td>
<td>2.4 Marketing and Distribution</td>
<td>3.4 Security Services</td>
<td>4.4 Facility Related Services</td>
<td>5.4 Test &amp; Measurement Supplies</td>
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<td>1.5 IT Outsourcing</td>
<td>2.5 Public Relations and Professional Communications Services</td>
<td>3.5 Security Services</td>
<td>4.5 Facilities Purchase &amp; Lease</td>
<td>5.5 Industrial Products Install/Maintenance/Repair/Rebuild</td>
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<td>1.6 Telecommunications</td>
<td>2.6 Real Estate Services</td>
<td>2.7 Trade Policy and Services</td>
<td>2.8 Technical and Engineering Services (non-IT) (Excludes 1.0)</td>
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<td>2.9 Financial Services</td>
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<td>5.7 Oils, Lubricants, and Waxes</td>
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<td>2.10 Social Services</td>
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### Level 2 Category

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<td>10.1 Drugs and Pharmaceutical Products</td>
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<td>10.2 Medical Equipment &amp; Accessories &amp; Supplies</td>
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<td>6.3 Furniture</td>
<td>7.3 Logistics Civil Augmentation Program</td>
<td>8.3 Travel Agent &amp; Misc. Services</td>
<td>9.3 Educational Institutions</td>
<td>10.3 Healthcare Services</td>
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<td>7.5 Motor Vehicles (non-combat)</td>
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<td>9.5 Vocational Training</td>
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<td>7.6 Transportation Equipment</td>
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<td>7.7 Fuels</td>
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### General Govt. Categories

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<td>12.1 Ammunition &amp; Explosives</td>
<td>13.1 Communication Equipment</td>
<td>14.1 Drones</td>
<td>15.1 Subsistence</td>
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<td>11.2 Land Combat Vehicles</td>
<td>12.2 Fire Control</td>
<td>13.2 Detection &amp; Coherent Radiation Equipment</td>
<td>14.2 Engines, Components &amp; Spt Eq</td>
<td>15.2 Textiles, Clothing &amp; Equipage</td>
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<td>11.3 Ships &amp; Submarines</td>
<td>12.3 Guided Missiles</td>
<td>13.3 Electrical and Electronics Equipment</td>
<td>14.3 Materials</td>
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<td>11.4 Space</td>
<td>12.4 Guns</td>
<td>13.4 Night Vision Equipment</td>
<td>14.4 Supply Parts</td>
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<td>12.5 Nuclear Ordnance</td>
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<td>14.5 Support Ships &amp; Small Craft</td>
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<td>12.6 Weapons</td>
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<td>14.6 Training Aids and Devices</td>
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### Defense Centric Categories

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<td>17.1 Systems Development</td>
<td>18.1 Maintenance, Repair and Overhaul</td>
<td>19.1 Equipment Maintenance</td>
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<td>16.2 S&amp;E Not Classified Elsewhere</td>
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<td>18.2 Equipment Modification</td>
<td>19.2 Equipment Leases</td>
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<td>17.3 Technology Base</td>
<td>18.3 Installation of Equipment</td>
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<td>17.4 Commercialization</td>
<td>18.4 Quality Control</td>
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<td>17.5 Pre-FY 1998 2-Digit Category</td>
<td>18.5 Technical Representative Services</td>
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<td>18.6 Purchases and Leases</td>
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<td>18.7 Salvage Services</td>
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## Facilities & Construction

### 4.1 Construction Related Services

- C1NE (ARCHITECT AND ENGINEERING- CONSTRUCTION: WATER SUPPLY FACILITIES)
- Y1NE (CONSTRUCTION OF WATER SUPPLY FACILITIES)
- Y245 (CONSTRUCT/WATER SUPPLY)

### 4.2 Facilities Purchase & Lease

- E1NE (PURCHASE OF WATER SUPPLY FACILITIES)

### 4.3 Facility Related Materials

- 4520 (SPACE AND WATER HEATING EQUIPMENT)
- 4610 (WATER PURIFICATION EQUIPMENT)
- 4620 (WATER DISTILLATION EQUIPMENT, MARINE AND INDUSTRIAL)
- W046 (LEASE OR RENTAL OF EQUIPMENT- WATER PURIFICATION AND SEWAGE TREATMENT EQUIPMENT)

### 4.4 Facility Related Services

- F103 (ENVIRONMENTAL SYSTEMS PROTECTION- WATER QUALITY SUPPORT)
- M1NE (OPERATION OF WATER SUPPLY FACILITIES)
- M245 (OPER OF GOVT WATER SUPPLY)
- S114 (UTILITIES- WATER)
- Z1NE (MAINTENANCE OF WATER SUPPLY FACILITIES)
- Z245 (MAINT-REP-ALT/WATER SUPPLY)
- Z2NE (REPAIR OR ALTERATION OF WATER SUPPLY FACILITIES)

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Ref: CMLC Gov’t-Wide Cat Mgt Guidance Doc V. 1.0, May 2015
AFICA’s Mountain of Spend

We must strategically manage costs to keep up with shrinking budgets

FY10-14 AFICA Spend $43B

Ref: AFICA Chart
GOVERNANCE
Cat Mgt Governance

CMLC
The governing board for Category Management initiatives. Provides government-wide direction on CM strategy and initiatives.

Category Managers
Experts in the category (e.g., IT). They develop the government-wide strategy to drive improved performance and act as change agents for the category.

L1 Category Team
Responsible for the development and execution of category strategies for a specific Level 1 category (e.g., IT).

L2 Category Team
Responsible for the development and execution of category strategies for a specific Level 2 category (e.g., IT software within the IT category).

Commodity Teams
Traditional strategic sourcing working group formed when the category management process identifies the need for a new acquisition solution.

Category Management PMO
Provides overall program management support to the groups and individuals in the governance structure; facilitates the development and implementation of business rules and processes.

Common Acquisition Platform
Develops and executes the IT strategy to support category management business strategy via the Acquisition Gateway.

Ref: CMLC Gov’t-Wide Cat Mgt Guidance Doc V. 1.0, May 2015
CATEGORY MANAGEMENT
OPERATING MODEL
Cat Mgt Operating Model

1. Category Planning
   - Team Building
   - Category Team (L1)
   - Category Team (L2)
   - Spend Analysis
   - Agency Needs Analysis
   - Market Analysis
   - Risk Analysis
   - Develop/Refine Category Strategy

2. Execution of Selected Performance Levers
   - Team Building
   - Category Team (L1 or L2)
   - Commodity Team
   - Demand Management
   - Total Cost Management
   - Supplier Management
   - Strategic Sourcing

3. Performance Management
   - Performance Tracking
   - Benchmarking
   - Continuous Improvement

Ongoing Review

<table>
<thead>
<tr>
<th>Goals</th>
<th>Performance</th>
<th>Lessons Learned</th>
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</thead>
</table>

Ref: CMLC Gov't-Wide Cat Mgt Guidance Doc V. 1.0, May 2015
Cat Mgt Operating Model

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2. Execution of Selected Performance Levers
- Team Building
- Category Team (L1 or L2)
- Commodity Team
- Demand Management
- Supplier Management
- Strategic Sourcing
- Total Cost Management

3. Performance Management
- Performance Tracking
- Benchmarking
- Continuous Improvement

Ongoing Review

Goals

Performance

Lessons Learned
Category Strategy Development

• CMLC currently working on a Govt-wide template

• Plan must address:
  • Statement of Goals and Objectives
  • Identification of Category Improvement Initiatives
  • Strategy Execution Plan
  • Category Strategy Risk Analysis
  • Cost-Benefit Analysis

Ref: CMLC Gov’t-Wide Cat Mgt Guidance Doc V. 1.0, May 2015
Category Improvement Initiatives

• 4 major performance levers
  • Demand Management:
    • Identify and standardize requirements and specifications
    • Eliminate unnecessary purchases and inefficient purchasing behaviors
    • Funnel purchasing and spend to Best-in-Class acquisition vehicles
  • Supplier/Vendor Management:
    • Work with suppliers/vendors to align their priorities with agency priorities
    • Develop mechanisms to monitor & address areas of supplier underperformance (e.g., quality, cost, delivery, service, innovation),
    • Increase information sharing and collaboration to identify and act on joint improvements
  • Strategic Sourcing:
    • Leverage purchasing power
    • Achieve better alignment with cost, quality, service, and delivery requirements
    • Manage sourcing risks
  • Total Cost Management:
    • Identify and address inefficiencies in internal processes and drivers of total cost across the supply chain

Ref: CMLC Gov’t-Wide Cat Mgt Guidance Doc V. 1.0, May 2015
AFICA’s Category Intelligence Report (CIR) Process

- Air Force Data (Internal)
- Market Intel (External)
  
  =

  Business Intelligence

- Historical Spend Analysis
- Analysis of SME Data
- Market Analysis
- Gap Analysis
- Develop Courses of Action

AFICA-AFCEC Pilot Portfolio Overview Report

AFICA-AFCEC Pilot Category Intelligence Report

Ref: AFICA Chart
Cat Mgt Operating Model
2. Category Execution
Category Execution

- Category execution is the implementation of the initiatives selected and detailed in the category strategic plan.

- 4 major performance levers:
  - Demand Management
  - Supplier/Vendor Management
  - Strategic Sourcing
  - Total Cost Management

Ref: CMLC Gov’t-Wide Cat Mgt Guidance Doc V. 1.0, May 2015
Demand Management (Examples)

- Policies that eliminate waste
  - Telework reduces travel spending
- Data clarity to manage costs & reduce wasteful behavior
  - Cancelling plans for inactive cell phones
- Strategic purchasing of items that reduce ongoing costs
  - Smart appliances and fixtures that reduce energy costs
- Changing specs to take out unnecessary costs
  - Laptops may not require CD-ROM drives or as much hard drive space
- Converging specs to support demand aggregation
  - Adjusting various agencies' specs so they can be aligned
- Directing spend through approved acquisition vehicles
  - Enterprise-wide furniture contract reduces admin cost & lowers prices through leveraged spend

Ref: CMLC Gov't-Wide Cat Mgt Guidance Doc V. 1.0, May 2015
Strategic Sourcing

• Strategic Sourcing involves the establishment or modification of acquisition vehicles to better address Federal Government procurement needs...

• KDP 1: Opportunity Analysis and Assessment
• KDP 2: Proposed Solution Strategy
• KDP 3: Solution Execution
• Ongoing Commodity Management

Ref: CMLC Gov’t-Wide Cat Mgt Guidance Doc V. 1.0, May 2015
AFICA’s Strategic Sourcing Wheel

Current Strategy Review

Market Intelligence

Requirements Definition

Sourcing Strategy Development

Sourcing Team/

Opportunity Assessment

Performance Management

Strategy Execution

* Additional FAR parts may apply

Ref: AFICA Chart
Cat Mgt Operating Model

3. Category Performance Mgt
Govt-Wide Cross Agency Priority (CAP) Goals

- **Savings (Methodologies must be universally applied)**
  - Price
  - Economic price adjusted cost avoidance
  - Administrative savings

- **Small Business Goals**
  - New strategic sourcing vehicles must meet or exceed current small business percentage

- **Reduced Contract Duplication (Contract Efficiency)**
  - Number of unique contracts per PSC

- **Spend Under Management**

Ref: CMLC Gov’t-Wide Cat Mgt Guidance Doc V. 1.0, May 2015
Spend Under Management (SUM)

- Quantifies the amount of spend addressed by the five key attributes of Category Management

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<thead>
<tr>
<th>Spend Under Management Attributes</th>
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<tbody>
<tr>
<td><strong>Leadership</strong></td>
<td>Unmanaged</td>
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<tr>
<td>Do individuals &amp; organizations have clear CM responsibilities?</td>
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<td><strong>Strategy</strong></td>
<td>Tier 1</td>
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<tr>
<td>Are CM practices in place?</td>
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<td><strong>Data</strong></td>
<td>Tier 2</td>
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<tr>
<td>Is analysis conducted and shared?</td>
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<td><strong>Tools</strong></td>
<td>Tier 3</td>
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<td>Are tools in place to share info and reduce duplication?</td>
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<td><strong>Metrics</strong></td>
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<td>Are metrics defined, tracked, and publicized?</td>
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Ref: CMLC Gov’t-Wide Cat Mgt Guidance Doc V. 1.0, May 2015 & OFPP SUM Workshop, Oct 2015
WAY FORWARD
### End of 2015

- OFPP release of category management guidance document
- GSA standing up PMO to support all government-wide category managers
- OFPP naming government-wide category managers - up to 8 of 10 category managers officially announced by December
- Continued development of tools and resources in the Acquisition Gateway

### Early 2016

- Stand up Category teams based on high-priority opportunity targets
- Define goals & targets
- Identify and select specific initiatives
- Identify additional analysis requirements to support prioritized areas
- Identify key stakeholders for prioritized initiatives
- Develop high-level action/implementation plan, performance metrics and milestones
- First policies / strategy decisions by...TBD (Late Spring?)

https://www.youtube.com/watch?v=uwqHNJvWHMA
Summary

• Category Management Background

• Category Management Basics

• Governance

• Operating Model
  1. Category Planning
  2. Category Execution
  3. Category Performance Management

• Way Forward
OPEN FORUM DISCUSSION

QUESTIONS?
# Scope of Oct SUM Data Call

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<thead>
<tr>
<th>Dept. of Homeland Security</th>
<th>Dept. of Treasury</th>
<th>Dept. of Transportation</th>
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<tbody>
<tr>
<td>Human Resources Services</td>
<td>IT Consulting</td>
<td>Human Resources Services</td>
</tr>
<tr>
<td>IT Hardware</td>
<td>IT Outsourcing</td>
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<td>IT Telecommunications</td>
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<tr>
<td>IT Software</td>
<td>Medical Equipment and Accessories</td>
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### Scope of Oct SUM Data Call cont.

<table>
<thead>
<tr>
<th><strong>DLA</strong></th>
<th><strong>Office of Personnel Management</strong></th>
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<tbody>
<tr>
<td>Drugs and Pharmaceutical Products</td>
<td>Specialized educational services</td>
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<tr>
<td>Fuels</td>
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<tr>
<td>Machinery &amp; Components</td>
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<td>IT Software</td>
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<tr>
<th><strong>General Services Administration</strong></th>
<th><strong>OSD (without DLA)</strong></th>
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<tbody>
<tr>
<td>Construction Related Services</td>
<td>Human Resources Services</td>
</tr>
<tr>
<td>Facility Related Services</td>
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<td>Motor Vehicles</td>
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# Evolution from Strat Sourcing to Cat Mgt

<table>
<thead>
<tr>
<th></th>
<th>Strategic Sourcing</th>
<th>Category Management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal</strong></td>
<td><strong>Achieve savings:</strong> implement specific strategies around spend and vendor consolidation, standardization of requirements and specifications, and price benchmarking and negotiation</td>
<td><strong>Maximize value for spend:</strong> reduce total cost of ownership (TCO), generate supply chain-wide savings, reduce risks, improve supplier and operational performance, and boost innovation</td>
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<tr>
<td></td>
<td><strong>Small business:</strong> Meet or exceed small business goals</td>
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<tr>
<td><strong>Frequency</strong></td>
<td><strong>Project driven:</strong> initiated once in three to five years based on internal demand or supply market changes</td>
<td><strong>Continuous:</strong> ongoing series of projects identified and prioritized based on regular analysis and reporting</td>
</tr>
<tr>
<td><strong>Methodology</strong></td>
<td><strong>Standard methodology:</strong> typically based on a seven- to nine-step methodology starting with assessment and ending with vendor selection and implementation</td>
<td><strong>Broad framework:</strong> ongoing cycle of establishing baseline and goals, developing a strategy for category improvement, project execution, and performance management</td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td><strong>Sourcing savings:</strong> annual savings through planned demand reduction and average purchase price reduction, tracked through finance and sourcing systems</td>
<td><strong>Value for spend:</strong> achievement of strategic objectives, including spend under management, price savings, TCO savings, improved supplier performance, innovation, and user satisfaction</td>
</tr>
</tbody>
</table>

Ref: CMLC Gov’t-Wide Cat Mgt Guidance Doc V. 1.0, May 2015
Category Management Value Proposition

- Get further down the IPL
  - Sustain infrastructure
  - Maintain Quality of Life

- Return $ to corporate AF
  - Pay AF must pay bills
  - Keep aircraft flying
  - Fund new mission areas

Delivering More Capability at the Same Cost

Integrated Priority List Without Category Management
1. Project A
2. Project B
3. Project C
4. Project D
5. Project E
6. Project F
7. Project G
8. Project H
9. Project I
10. Project J
11. Project K
12. Project L
13. Project M
14. Project N
15. Project O
16. Project P
17. Project Q
18. Project R
19. Project S
20. Project T

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Ref: AFICA Chart