A $400 Billion Opportunity

10 Strategies to Cut the Fat Out of Federal Procurement

Raj Sharma  November 2010
The federal government can save between $25 billion and $54 billion a year by changing the way it buys goods and services, according to a new analysis from the Center for American Progress. That’s roughly $400 billion in savings over 10 years on average, or a 7.5 percent annual reduction from current federal procurement spending levels of more than $500 billion a year.

As the White House and Congress fight over how to reduce the budget deficit amid growing demand for government services, the reduction of procurement costs offers an attractive path forward for all sides, especially in light of private-sector successes in this arena. Indeed, business-affiliated groups including McKinsey & Co., the Tech CEO Council, and the IBM Center for the Business of Government have all also issued reports in the last two years identifying billions of dollars in potential savings.

The good news: The cost-saving approaches we identify are proven to work and make common sense. And every dollar saved by making procurement more efficient is a dollar that doesn’t have to come from cutting vital government programs or raising taxes.

The caveat: It’s hard. The government’s sheer size and multitude of interests are a challenge to any meaningful procurement reform. Coordinating and monitoring activities across multiple agencies and bureaus that employ 1.9 million people is a massive challenge.

To make the challenge less daunting, this paper distills a comprehensive procurement-reform agenda into 10 proven strategies that can be applied by anyone in an agency looking to improve performance and reduce costs. To be sure, some of these approaches are more applicable to certain types of goods and services but collectively they form a roadmap to addressing the problem of procurement waste. These 10 strategies are coordinated with the three phases of the procurement (more broadly referred to as “acquisition”) process:
• Planning: Program managers and end-users define what and how much they need to buy.

• Negotiation: Procurement officers, along with other parties, plan the purchase, invite potential suppliers to bid for government work, negotiate with suppliers, and write a contract.

• Management: Program managers, procurement officers, and others make sure the product or service is delivered and used as expected.

The 10 strategies

This paper details the following 10 strategies to cut costs in federal procurement. We identify successful examples currently underway and list specific steps to implement each approach.

• **Estimate demand**—**know how much you need**. So-called accurate-needs estimates help set budgets, predict required operational capacity, and provide suppliers accurate demand information that can improve government’s ability to negotiate better pricing.

• **Plan better, use less**—**separate what you need from what you want**. The easiest way to reduce costs is often simply to consume less. That starts by tying every purchase requirement to an identified need, not merely a desire.

• **Buy commercial**—**buy what people are already selling**. It’s almost always less expensive and less risky to buy an “off the shelf” product than to commission a customized version. But it requires extensive research and discipline to stick to what the market offers.

• **Source strategically**—**coordinate and consolidate your purchases**. Instead of purchasing something whenever a need arises, “strategic sourcing” means coordinating across offices and taking a step back to determine the best way to purchase a good or service on an ongoing basis.
• **Maximize competition**—make it easy for vendors to save you money. Competition lowers costs, promotes innovation, and improves performance, so procurement officers should always strive to structure orders that attract multiple serious bidders.

• **Negotiate intelligently**—know everything about your bidders. Smart buyers understand every aspect of cost for a product or service and arrive at the negotiation table armed with extensive knowledge of the bidders.

• **Simplify and automate**—keep it simple, stupid. Procurement officials should eliminate bureaucratic hurdles that deter competition and they should automate processes wherever possible.

• **Manage supplier relationships**—get what you paid for. The buzz phrase “supplier relationship management” refers to a conscious effort at proactively managing supplier performance and relationships across an organization. This improves management of suppliers across multiple contracts and gives buyers better insight into vendor operations.

• **Manage costs jointly**—lower your supplier’s costs to lower your own. Working with suppliers to increase efficiencies and remove waste across the entire supply chain can ultimately reduce costs for government.

• **Manage internal and contract compliance**—show me the money. When agencies don’t ensure cost-saving strategies are being used and suppliers are complying with contract terms, predicted savings can “leak” out. Compliance management requires an unrelenting focus on implementation to ensure “identified” savings become “real.”

By adopting these 10 strategies, the federal government could rein in the growing share of the federal budget that goes toward procurement costs, which ballooned in the first decade of the 21st century under the Bush administration. (see Figure 1)

But a cost-containment initiative will only work if agency heads are required to reduce their budgets to account for estimated savings. It must be a use-it-or-lose-it proposition: Either you use these strategies to cut costs—or you cut your budgets elsewhere.
In the pages that follow, this report will detail the current procurement problem to highlight the opportunities available to the federal government to operate more efficiently and effectively, then offer the cost-cutting framework needed to make these reforms happen. We then detail our 10 strategies for procurement reform to demonstrate that progressive reforms to the procurement process can ensure the federal government is doing what works to help rein in unnecessary government spending.

**Procurement reforms are critical**

The cost of government procurement exploded during the Bush administration.

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Source: www.usaspending.gov.
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