

Buying as One: Category Management Lessons From the United Kingdom

By Anne Laurent



The 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 (OMB) 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 are constantly bidding on redundant work.

A purchasing strategy adopted by the private sector three decades ago, called category management, organizes the spending on common goods and services across the enterprise into defined categories, such as travel or commercial software, from the same or similar supplier base. 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 federal government began its category management initiative in 2014 and the administration has designated the

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

Buying as One

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.

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, furniture, and travel. In the United Kingdom, this approach has enabled the government to aggregate demand to approach suppliers as a single whole-government buyer, wielding expansive bargaining power, as opposed to multiple agencies duplicating purchases of the same goods and services at widely varying prices.

The accompanying sidebar describes the key elements of a category management framework within a government or enterprise that starts with the strategic and operational mission, and then 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.

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A Model of a Public Sector Category Management Framework

Categories are developed based on spend analysis. Spend analysis guides the creation and management of categories. It reveals 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.

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.

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.

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, suppliers, and market analyses. Tools include:

- **Demand management.** Category teams help programs and agencies redirect, reshape, and reduce their demand for goods and services and refine and consolidate their requirements.
- **Strategic sourcing.** Spending analysis opens the door to consolidating demand, requirements and purchases, and to identifying the best contracts and suppliers.
- **Contract management.** Centrally managed categories of common spending generally craft governmentwide contracts. Contracts will take different forms and require more or less management depending on the levels of risk and value involved in supplier relationships.
- **Supplier management.** Supplier performance should be monitored and measured against category metrics and across categories.

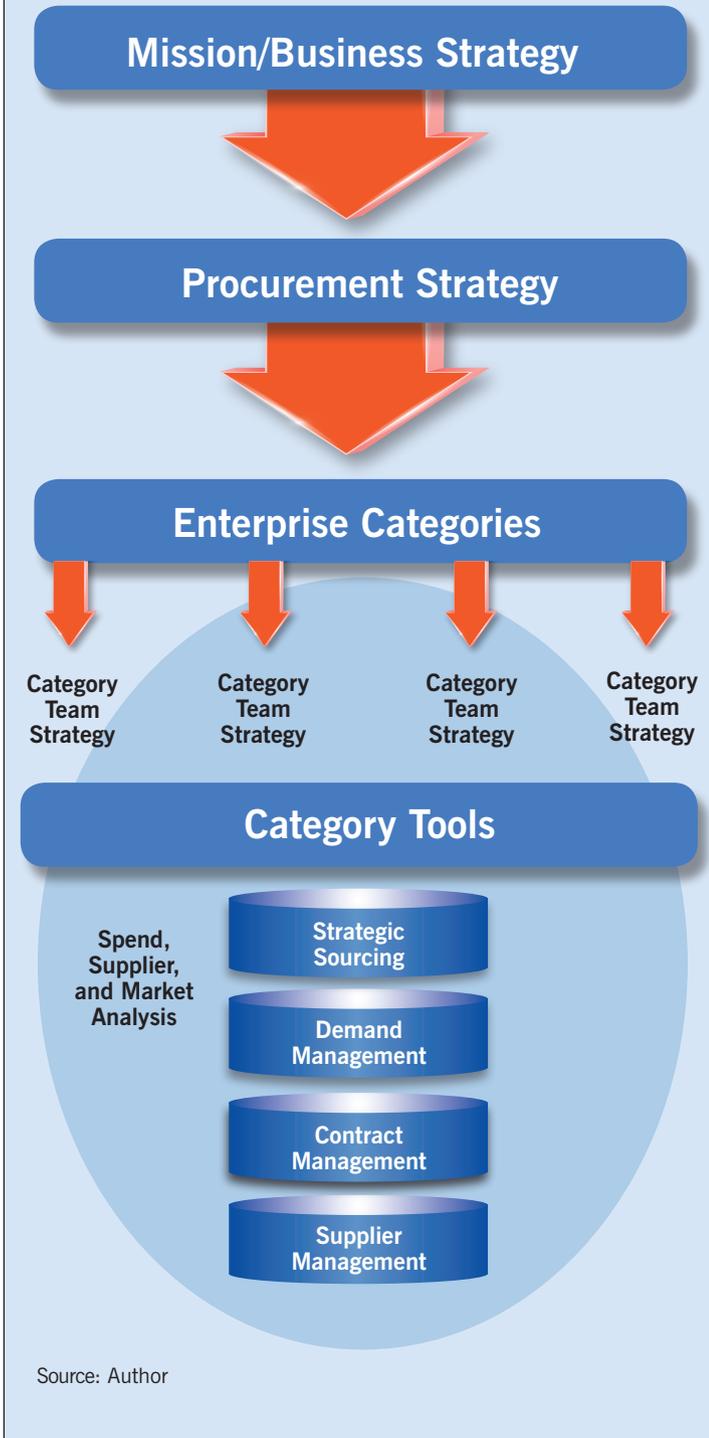
Governments use variations on this model, but similar elements tend to be reflected in most public sector category management programs. The following two sections describe how two different governments, the United Kingdom and the United States, developed their approaches. The concluding section offers insights and lessons for the U.S. program as it continues to evolve.



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.



Source: Author

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 in 2010, 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. 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.

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

Managing common spending in categories gave 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, by category, and by suppliers.

The U.S. Approach to Category Management

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 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, in addition

to ensuring commitment to it by a small team of dedicated career management experts, combined to enable category management to continue as an administration priority after the 2017 presidential transition.

A governmentwide Category Management Leadership Council created in late 2014 comprised 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 career senior executive was designated as the category manager for each. As of late 2016, these teams were staffed with about 350 people from 46 departments and agencies who

are identifying performance metrics and talking with top suppliers in their respective categories.

Beneath the 10 “super categories” are 50 subcategories. Each governmentwide category is governed by a team and 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.

This initiative was carried forward into the current President’s Management Agenda which set performance targets to be achieved by FY 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 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. Its pioneering experiences offer a potential roadmap for other governments—national, state, or local—to get started, as well. Following are six key insights drawn from the U.K. program that may be helpful specifically to the U.S. category management initiative as it continues to evolve:

- **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.
- **Executing a governmentwide procurement strategy takes empowered, dogged 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.
- **Using a strategic supplier management approach can result in greater value from suppliers that contract with multiple agencies.** The U.K. has adopted a stringent performance monitoring and reporting scheme for suppliers that hold a significant number of contracts with multiple government agencies.
- **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.
- **Standardizing and leveraging usage data and buying fewer standard versions of common goods can drive savings.** This was exemplified in the U.K. in its approach to the software category where it: standardized software data; used spend analysis to negotiate with resellers and publishers as a single government buyer; created a governmentwide software exchange; and helped departments inventory their licenses by vendor size and type.
- **Category management requires managing spending, not just obligations.** Detailed, accurate, and current accounting that enables spending visibility and control have led to U.K. price and demand management savings and ongoing identification of savings opportunities. In contrast, the U.S. government primarily relies on proxy spending information from a less accurate, poorly categorized database and transaction-level data from preferred category contracts.

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