DOE & Strategic Sourcing
"New Challenges, New Opportunities"

What is it?

NNSA Model

DOE Future Activities

Bill Marks, Commodity Manager, NNSA Supply Chain Management Center
Gary Lyttek, HQ Business Source Manager, NNSA

"Strategic Sourcing"

What is it?

Leveraged Buying?

Few, bigger buys?

Threatening?

Bundling?

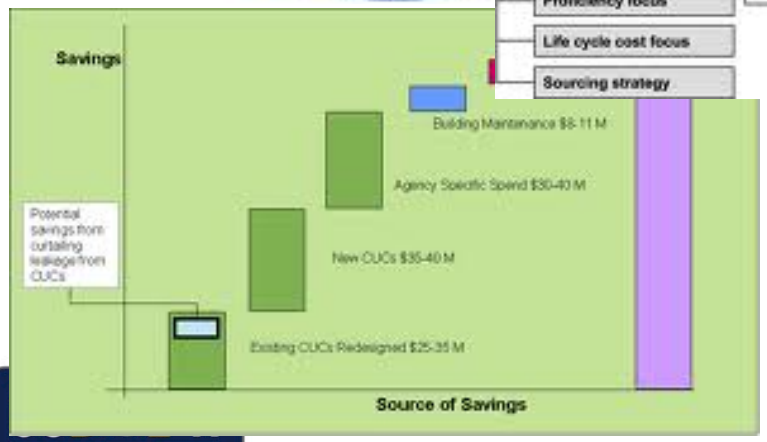
Anti-Small Business?

An Opportunity!

Strategic Sourcing – a Definition

- **Strategic Sourcing** is an institutional procurement process that continuously improves and re-evaluates the purchasing activities of a company. In a production environment, it is often considered one component of supply chain management …however, it applies as well to services or capital.

Strategic Sourcing Process Models



My Personal Favorite…

FULFILLMENT/LOGISTICS
INBOUND & OUTBOUND

- Order Management Inputs (from Order/Demand Management Pie)
- Outsourcing Services
- Reverse Logistics
- Customized Build/Assemble
- Inventory Management & Optimization
- Transportation Management & Optimization
- Warehouse Management Services/Systems
- Distribution Planning/Distribution Requirements Planning
- Route Accounting/Management & Direct Store Delivery Solutions Order and Delivery Management
- Simultaneous Outbound and Inbound Management
- Global Trade Management
- Supply Chain Event Management
- Manufacturing Execution Systems
- Logistics Resource Management
- Service Parts Logistics and Service Supply Chain Planning
- Vendor-managed Inventory (VMI)
- Supply Chain Execution
- Material Handling Equipment & Services
- Supply Chain Security
- C02 Tracking & Management

SUPPLY CHAIN INTEGRATION & TECHNOLOGY INFRASTRUCTURE

- Network Infrastructure Enterprise Data Management & Data Synchronization
- Security
- Regulatory & Customer Mandate Compliance, Governance Issues
- Hardware Options
- B2B Connectivity Standards and Integration Planning
- Contingency Planning
- Automatic Identification & Data Capture (RFID)
- Wireless Applications And Devices
- Enterprise Asset Management (EAM)
- Internal/External Portals
- Electronic Data Interchange (EDI)
- On-demand, Hosted Applications
- Enterprise Application Integration (EAI)
- Enterprise Resource Planning (ERP)

PRODUCT LIFECYCLE MANAGEMENT

- Request for Information
- Collaborative Design
- Product Portfolio Management
- New Product Introduction
- Outsourced Design Services
- Product Data Management
- Design for Sustainability/ Environment

PROCUREMENT
(Direct, Indirect & Services)

- Marketplaces
- Employee Business Services Management [incl. Travel & Entertainment (T&E)]
- Purchase Order & Requisition Management
- Sustainable/"Green" Supply Management
- Content Management
- Supplier Relationship Management & Supplier Development
- Supplier Performance Measurement & Monitoring
- Contingent & Temp Labor Services Management
- Supplier Enablement
- Group Purchasing Organizations/Solutions
- Product Cost Management
- Supplier Risk Management
- Negotiations & Contract Management

PAYMENT
ALL FORMS OF ENABLED PAYMENT

- Financial Transaction Management (All Req-to-check Processes)
- e-Credit
- e-Money
- Electronic Funds Transfer & All Forms Of e-Payment
- Electronic Bill Presentment, e-Invoicing
- Spend Data Management
- Purchasing Cards
- Collaborative Cash Flow Management
- Financial Supply Chain Management
- Freight Audit & Payment Services
- Global Trade Finance

SOURCING

- Trading Exchanges (Public & Private)
- Sustainable/"Green" Supply Management
- Commodity Team & Supplier Collaboration
- Spend Analytics, Product Cost Management & Supply Strategy
- Content Management
- Outsourced Manufacturing
- Auctions
- Total Cost Analysis

ORDER/DEMAND CAPTURE

- Supply Chain Coordination & Event Management
- Supply Chain & Production Planning
- Outsourced Manufacturing
- Quote-to-order Automation
- Demand Planning/Forecasting
- Capacity Planning
- Promotional Planning
- Order & Demand Management
- Supply & Demand Chain Network Design
- eRFI/eRFP
- Sales & Operations Planning (S&OP))/Sales, Inventory & Operations Planning (SIOP)

CUSTOMER RELATIONSHIP MANAGEMENT

- Field Service & Service Parts Logistics
- Warranty Chain Management
- Contest Management
- Sales Force Automation
- Trade Promotion Management
- Channel Management & Customer Analytics
- Reverse Logistics/Material And/Or Merchandise Returns
- Mobile Sales Solutions

The Basic Process

1. Assess a company's current spend (what is bought where)
2. Assess the supply market (who offers what)
3. Do a "Total Cost Analysis" (how much)
4. Identify suitable suppliers (best of the best)
5. Develop a Sourcing Strategy (Where: demand, supply, risk, & cost)
6. Negotiate with suppliers (products, services, geographical coverage, time)
7. Implement the new supply structure (Award(s), etc.)
8. Continuous track results & assess again.

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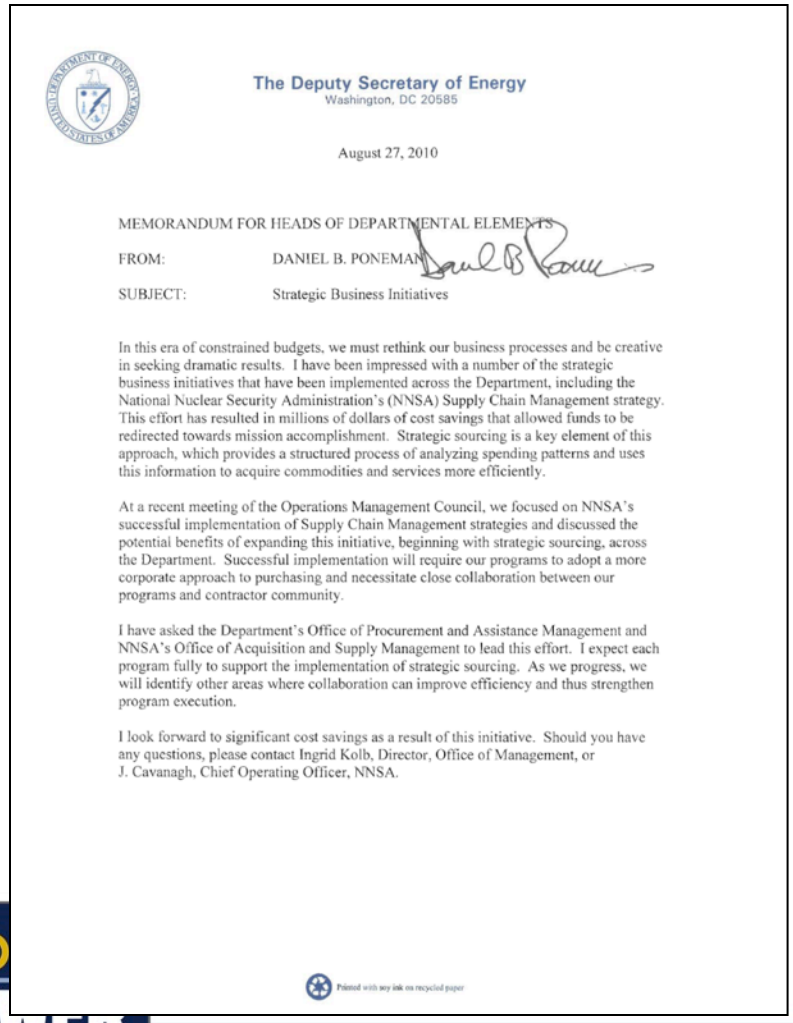
Deputy Sec. Memo



The Deputy Secretary of Energy
Washington, DC 20585

August 27, 2010

MEMORANDUM FOR HEADS OF DEPARTMENTAL ELEMENTS

FROM: DANIEL B. PONEMAN

SUBJECT: Strategic Business Initiatives

In this era of constrained budgets, we must rethink our business processes and be creative in seeking dramatic results. I have been impressed with a number of the strategic business initiatives that have been implemented across the Department, including the National Nuclear Security Administration's (NNSA) Supply Chain Management strategy. This effort has resulted in millions of dollars of cost savings that allowed funds to be redirected towards mission accomplishment. Strategic sourcing is a key element of this approach, which provides a structured process of analyzing spending patterns and uses this information to acquire commodities and services more efficiently.

At a recent meeting of the Operations Management Council, we focused on NNSA's successful implementation of Supply Chain Management strategies and discussed the potential benefits of expanding this initiative, beginning with strategic sourcing, across the Department. Successful implementation will require our programs to adopt a more corporate approach to purchasing and necessitate close collaboration between our programs and contractor community.

I have asked the Department's Office of Procurement and Assistance Management and NNSA's Office of Acquisition and Supply Management to lead this effort. I expect each program fully to support the implementation of strategic sourcing. As we progress, we will identify other areas where collaboration can improve efficiency and thus strengthen program execution.

I look forward to significant cost savings as a result of this initiative. Should you have any questions, please contact Ingrid Kolb, Director, Office of Management, or J. Cavanagh, Chief Operating Officer, NNSA.

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Strategic Business Initiatives Memo, dated August 27, 2010

- Identifies Strategic Sourcing as a key element of DOE Savings initiative
- Requires Programs to adopt a more corporate approach to procurement and support the efforts
- Requests DOE & NNSA Procurement to lead the efforts and work closely with Programs

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Program Objectives

- Objective 1: Establish Department-wide, cross-functional acquisition strategies. SSPO will help the Department evolve from a traditional, stove-piped local purchasing orientation and, where appropriate, facilitate the collaborative development of Department-wide sourcing strategies for target commodities.

- Objective 2: Reduce the Total Cost of Ownership for acquired goods and services by understanding all costs related to the acquisition, use, and disposal of acquired good or service, and minimizing the Total Cost of Ownership.

- ***Objective 3: Improve fulfillment of socio-economic acquisition goals by ensuring the utilization of small and disadvantaged businesses and fulfillment of socio-economic programs by matching small business capabilities to the Department's requirements.***

- Objective 4: Standardize acquisition business processes by improving the efficiency and consistency of DOE procurements by implementing standardized acquisition business processes throughout the Department.

U.S. DEPARTMENT OF ENERGY OMB requires Cost Savings!

- **OMB Memorandum of July 29, 2009 (M-09–25**) required agencies to develop savings plans to achieve 3.5% of their FY-2008 baseline in 2010 and 7% of the baseline in 2011 as part of the Administration's desire to save $40B per year.

Unofficial…

- **DOE Program Savings** were originally proposed at 3.5% per year for both years. OFPP assigned a ***7%*** target for 2011 equates to over ***$766M*** in savings required.

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Efforts

- ***DOE Strategic Sourcing Initiatives:***
  - **Federal Strategic Sourcing Initiative (FSSI)**
    - Domestic Delivery Services
    - Office Supplies
  - **NNSA Supply Chain Management Center (SCMC)**
    - Aligns the purchasing power of seven contractors
    - Electronic Procurement Tools and Services
  - **Integrated Contractor Purchasing Team (ICPT)**
    - Contractor Supply Chain Council (CSCC)
    - Procurement Evaluation and Re-Engineering Team (PERT)
  - **Enterprise Wide Agreements (EWA)**
    - Office of the Chief Information Officer (OCIO)
    - Enterprise Software License Agreements
  - **DOE & NNSA Procurement Offices have the lead**

SCMC Background

August 2006:

KCP mission assignment to lead sites in implementing NNSA Supply Chain Management Center as part of NSE Transformation

Focus:

Collaboration across NNSA contractor sites to leverage $3B of annual M&O spend (purchase orders & subcontracts) and optimize systems to transform NNSA into integrated global strategic sourcing enterprise

Participating Sites:

- Kansas City Plant
- Lawrence Livermore National Lab
- Pantex
- Y12
- Los Alamos National Lab
- Nevada National Security Site
- Sandia National Lab

"**Strategic sourcing** is the *collaborative* and *structured* process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently." ------**OMB** *May 2005*

Roles & Responsibilities

Supply Chain Management Center **Open Position, Director**	NNSA **Joe Waddell, Director Acquisition & Supply Management (NA-63)**	Site Acquisition Management
▪ Lead collaboration among sites to achieve NNSA goals ▪ Conduct enterprise-wide spend analysis ▪ Lead NNSA commodity strategy and perform contract management ▪ Provide and maintain collaborative systems ▪ Ensure contract compliance ▪ Assign commodity managers as necessary ▪ Establish performance based measures and integrate into NNSA Objectives Matrix	▪ Champion strategic sourcing efforts of Supply Chain Management Center ▪ Provide leadership for deployment ▪ Provide oversight in establishing metrics to measure performance and cost savings attainment ▪ Provide guidance in targeting commodities for strategic sourcing ▪ Ensure sites participate by including appropriate goals in sites' PEP to incentivize site participation	▪ Participate with other site leaders, NNSA and SCMC to drive success ▪ Provide a site coordinator to manage SCMC-driven activities ▪ Provide commodity managers where appropriate ▪ Ensure site supports collaborative system implementation and utilization ▪ Champion NNSA goal attainment at site ▪ Execute site procurements

NSE collaboration is key to supply chain transformation

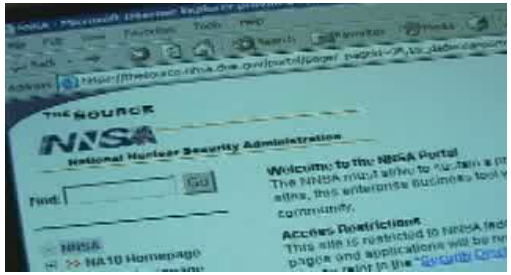
SCMC Components

- Collaborative enterprise system
  - NNSA Portal
  - NNSA Spend Analysis
  - NNSA eSourcing
  - NNSA eProject Management
  - NNSA eStore/eProcurement
  - Supplier Performance Management

- Strategic sourcing organization and standardized commodity management process

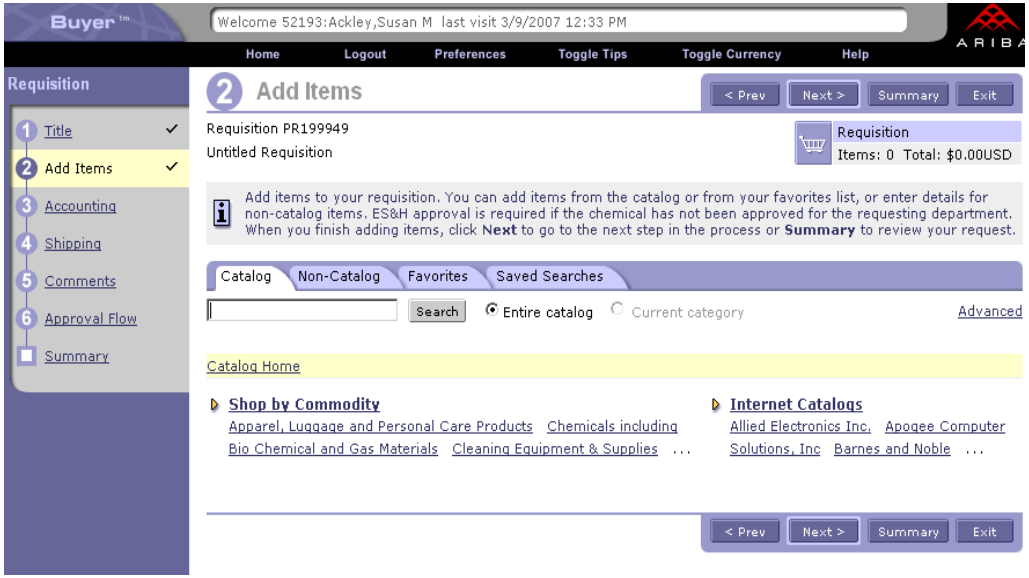
- Supply Chain Management Center accountable for performance against goals and cost savings

NNSA Portal



NNSA eSourcing

NNSA eStore



SCMC Overview

What it is:

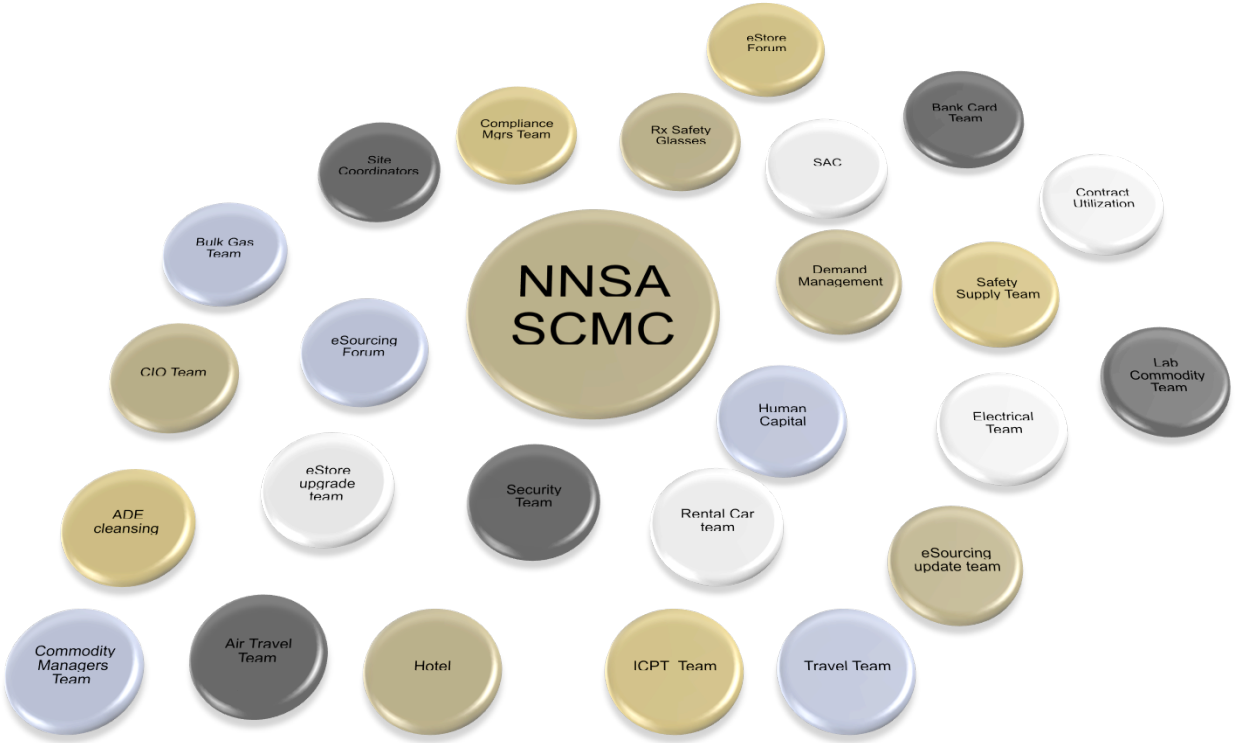
- An enterprise-wide sourcing system
- Leveraging NNSA's spend through NSE contracts
- A collaborative effort among all NSE participants
- Commodity teams responsible for commodity strategy and delivering savings
- Cost savings shared with NNSA & sites through system utilization
- How big corporations do business through commodity strategies and corporate agreements

What it is not:

- Does not shift procurement budgets from individual sites
- Does not remove execution of spend from individual sites
- Does not replace systems already in place
- For procurement of everything

SCMC Teams

Objectives are accomplished through team work and collaboration!



SCMC Commodity Teams

Awarded

- Bank Card
- Anti-Virus Software*
- Travel – Air
- Travel – Rental Car
- Travel - Hotel
- Ground Fuels*
- Rx Glasses
- Lab Equipment and Supplies*
- RSA Tokens and Maintenance*
- Security – Air Purifying Masks*
- Electrical Supplies*
- Wireless Initiative*

In Process

- Safety Supplies
- Travel – Management Services
- Bulk Gas
- Desktop & Laptop Computers
- Industrial Supplies
- Electronic Components
- Copy Machines

*Small Business

Supply Chain Management Center

FY10 Accomplishments

- $81M eSourcing savings (8.6%)
- $28M projected savings from SCMC Commodity Agreements
- 14 NNSA eStore catalogs available
- 12,000+ eCatalog orders transmitted to suppliers
- Deployed new eCatalog application Deployed eProject management tool

FY2011 Accomplishment to-date

- As of 04/10/10 savings of $67.9M
- Savings since inception – 04/10/11 $280.5M
- Won 2011 “Progressive Manufacturing 100 Award” in Supply Network Mastery category – top 100 organizations in the World

Opportunities

- Drive utilization of SCMC agreements
- Partner with functions to identify standardization opportunities
- Further enhance eBusiness tools
- Increase small business penetration
- Develop supply chain maturity roadmap
- Export SCMC tools to other NSE business teams
- Support DOE-wide Supply Chain Management Center expansion

Seller Considerations

- Small Business Considerations:
  - Strong Customer focus
  - eCatalog capability
  - Willingness to participate in eSourcing events
  - Nation-wide Geographic reach
    - Partnerships
      - Consortium
      - Large business

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The Future

- **Success depends greatly upon being Proactive in Implementation**
  - Organized Supply Chain Management
  - Ability to Collect Cost Savings Data
  - Marketing Strategic Sourcing Processes and Procedures
  - Building upon successes throughout the Department
- **Prime Contractors are doing many things well - we need to capture it**
- **Opportunities exist for collaboration between M&O contractors**
  - Supply Chain Management encompasses a myriad of activities – not just strategic sourcing
- **Opportunities may exist with collaboration between agencies**
  - EPA, Corps of Engineers, AFCEE, etc..
  - Occurred in the 1990's, however, the will was not there.

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Challenges

- Fear of collaboration between Prime Contractors
- Fear of savings resulting in reduced budgets
- Reluctance to adopt standardized sourcing process(es)
- Reluctance to benchmark with industry
- Insufficient visibility into timely/accurate spend data
  - Enterprise-wide spend analysis will be difficult without access to subcontactor spend
  - Current enterprise-wide software inadequate to conduct spend analysis
- Limited budget/resources to implement

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Expansion Activity

- Office of Science (SC)
  - Meeting with Procurement Managers to discuss Strategic Sourcing concepts, Cost Savings and Savings Plans
    - Discuss cost savings by applying SCMC and/or Strategic Sourcing
    - All Laboratories Represented
- Environmental Management (EM)
  - SRS and ORNL Investigating using SCMC eTools
    - eStore Catalog ordering using Vinimeya software application
- Office of Chief Information Officer (OCIO)
  - Expanding Enterprise-Wide Agreements (EWA) to all of DOE
    - Available by both Federal and M&O Contractor
- Federal Strategic Sourcing Initiative
  - Spend on Office Supplies, wireless devices, domestic express mail delivery service, copiers/printers and office products