

White Paper: Category Management—A Practical Resource for Acquisition Planning and Performance Management if Implemented Correctly

Introduction: The Smart Contracting Working Group within PSC’s Acquisition and Business Policy Council (ABPC) was formed to look for opportunities to improve the federal procurement system that would benefit both government and industry. Commonsense policies and consistently applied procedures for how and when the government acquires services can greatly enhance the effectiveness and efficiency of the federal acquisition system. In many areas, improvements to government business and buying policy—whether through statute, regulations, or agency guidance—will lead to positive outcomes that far exceed the magnitude of the changes themselves.

Background: Category Management (CM) is a federal initiative intended to develop and provide the acquisition community with more efficient acquisition methods based on procurement categories, or “hallways,” by capitalizing on subject matter expertise and lessons learned across the government to drive best practice acquisition solutions across the categories. The CM approach includes “strategic sourcing, but also a broader set of strategies to drive performance, like developing common standards in practices and contracts, driving greater transparency in acquisition performance, improving data analysis, and more frequently using private sector (as well as government) best practices.”¹ GSA’s Acquisition Gateway (AG) is an online portal intended to serve the government acquisition community as a single source for information related to all acquisition categories to facilitate assessment and development of purchasing options.

The ten primary government categories of tracking spending are as follows:

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| 1) Information Technology | 6) Office Management |
| 2) Professional Services | 7) Transportation and Logistics Services |
| 3) Security and Protection | 8) Travel and Lodging |
| 4) Facilities and Construction | 9) Human Capital |
| 5) Industrial Products and Services | 10) Medical |

Discussion: Category Management provides an excellent opportunity for streamlining and refining the federal acquisition of professional services through standardization, consistency, transparency and practical application of best practices. As with every major acquisition initiative, there is a risk of unintended consequences if it is not carefully developed and deployed. The professional services industry applauds the undertaking to improve how professional services procurements are developed, solicited, awarded and executed in an environment of collaboration with buyers and sellers as constructive partners. In the sections that follow, we attempt to shed some light on what we see as potential hazards to be avoided during the implementation of CM and the AG.

Government/Industry Partnership: Development and maintenance of categories relies on designated Subject Matter Experts (Category Managers). Each category will be led by a senior government executive designated as an expert in that category. That executive is charged with developing a government-wide strategy to drive improved performance.² PSC recommends that an accommodation be made for direct industry engagement, perhaps on a rotating basis, to provide fresh insight or mitigate conflicts of interest, or by means of regular forums, to participate in Communities of Practice associated with each Category. This engagement would be beneficial to informing methodologies used for compiling, updating, verifying and validating subject matter and credentialing contributing SMEs.

Commoditization of Professional Services: One such risk is the tendency to treat professional services as commodities, such that innovation is wrung out of a service offering through requirements set by lowest common denominators at lowest cost. Another risk is that the government’s analysis will likely be across a labor category, which does not allow for the assessment of unique requirements that are consolidated within a single labor category. For example, a Software Developer working in a well-known computer code and/or language is not the same in terms of cost and skills as a Software Developer working on an Enterprise Resource Planning (ERP) tool such as SAP or PeopleSoft. However, a contractor may not have a labor category available to accommodate an ERP SW Developer and be forced by the procurement to use the broader category. To mitigate this risk, engagement between government and industry from the early stages of category development and implementation will serve to validate and refine objectives from broad stakeholder perspectives, assess and apply best practices, identify and mitigate unintended consequences, and ensure that the AG, and the category-based information managed therein, provide an effective procurement tool for both buyer and seller across the broad spectrum of services the government purchases.

In addition to the technical substance associated with the defined categories, there will be issues relating to access to compiled transactional data (i.e.: invoices and pricing). Considering the obvious sensitivity of this data, there is great concern within industry about how this data will be captured and protected in the AG. For instance, by whom and how will this data be accessed? How will this data be interpreted and applied to future procurements? This latter question is of particular importance since there may be risk of this data leading to commoditizing higher-end services, or factoring in rates independent of the performance associated with those rates. Industry strongly cautions the government’s acquisition community to use this information with appropriate sensitivity to ensure that pricing information (so called “prices paid”) is utilized only with sufficient context to ensure consideration is given to such factors as location, market conditions (e.g. availability of skills), required education, levels of certification and security clearance specific to that requirement, complexity of effort, etc. Without an understanding of these variables, the prices paid for a service in the past cannot be accurately applied to establish a reasonable baseline for a future procurement.

Transactional pricing data would ideally be used to provide “sensitivity analysis” for fully burdened labor rates associated with service categories. If collected and used appropriately, this could serve as a basis for assessing cost reasonableness and/or realism. Similar to “trip wires” at the high end, there would be, in effect, trip wires at the low end, to avoid the potential for poor performance issues associated with a lowest price, technically acceptable (LPTA) evaluation strategy. In essence, the “prices paid” information could aid in establishing a range of pricing data from which to assess reasonable/realistic costs for planned solicitations, with discretion provided for complexity and range of expertise within a given category. In other words, one size does not fit all. Transactional data—vis-à-vis contract rates—by themselves, do not necessarily reflect associated performance, and therefore can be misleading and misconstrued. A referential labor rate by itself is not an indicator of value. There must be a means to assess the performance associated with a given rate or set of rates. “Best value” can and should be a determinant in source selection, as well as an execution performance assessment.

These two factors—rate and performance—in conjunction with each other, provide a realistic operational perspective of reasonable rates. One possibility is that categories, and corresponding rate continuums, could be indexed to Product Service Codes, with practical ranges of realistic and reasonable rates (i.e.: allowable discretion). The more complex the requirements for a given service category, the broader the range of realistic and reasonable rates. Figure 1 below illustrates a notional approach to categorizing rates by service category. This is simply representative, and does not cover the universe of professional services. In the figure, the top of the pyramid represents services where the complexity and

associated variability across prices paid is narrower or more rigidly defined, while at the bottom of the pyramid, the range of rates is more extensive as more complex and specialized services are being procured.

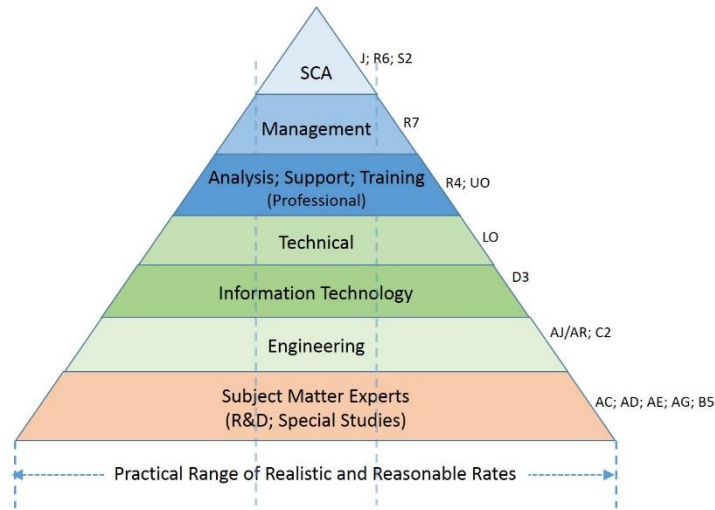


Figure 1 – Product Services Codes Hierarchy

Another perspective on the importance of an analytical application of category management is the tradeoff between cost and quality. This relationship is illustrated in Figure 2 below. Considerations in the cost-quality tradeoff include immediate availability, willingness to travel overseas or into combat zones, timeliness of customer service, and more. Further, a labor hour is rarely discrete; each labor hour is part of an integrated project. The value of a company’s ability to build and deploy a team to accomplish the mission or service objective is not simply the sum of the labor hours. How “Quality” is determined or measured varies by project or program. The price-quality tradeoff must be driven by a clear understanding of requirements and careful determination of whether the ability to mitigate risk and ensure achievement of objectives is worth the price. This is the “Best Value.” If the government stays on or near what is determined to be “Best Value”, indicated by the diagonal line in Figure 2, they are making the proper tradeoffs.

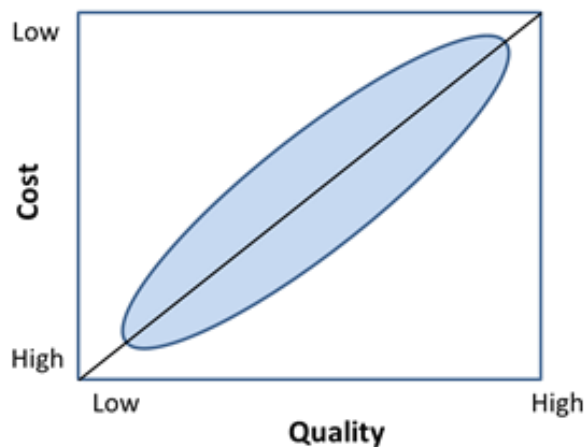


Figure 2 - Price/Quality Tradeoff

Technology Must Aid, Not Dictate, Decision Making: It is our belief that the AG can be an invaluable resource for achieving the intended objectives of CM, as long as it guides and fosters decision making, rather than dictating decisions. Like any management information system, AG and the CM environment must serve as the basis for critical thinking within the acquisition community. Functioning as a library of resources and references such as Statements of Objectives (SOOs), Statements of Work (SOWs), and Performance Work Statements (PWSs), AG can inform a level of standardization that can, in turn, be used to expedite and improve the acquisition process, and facilitate engagement with industry for the specific definition and validation of requirements.

Industry Feedback: As the AG and CM are adopted across the government, PSC recommends that agencies regularly seek feedback from industry regarding procurements developed within this framework. Templates and best practices are only as good as the results they produce. The true test of these initiatives are the outcomes produced when government and industry are effectively working together.

In the end (and at the beginning), government and industry, as custodians of public trust and resources, have a mutual vested interest in ensuring the efficiency and effectiveness of government operations.

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The Professional Services Council (PSC) is the voice of the government technology and professional services industry. PSC's more than 400 member companies represent small, medium and large businesses that provide federal agencies with services of all kinds, including information technology, engineering, logistics, facilities management, operations and maintenance, consulting, international development, scientific, social, environmental services, and more. Together, the trade association's members employ hundreds of thousands of Americans in all 50 states.

¹ OFPP Administrator Anne Rung 12/04/2014 Memorandum: *Transforming the Marketplace: Simplifying Federal Procurement to Improve Performance, Drive Innovation, and Increase Savings*. Available at: <https://www.whitehouse.gov/sites/default/files/omb/procurement/memo/simplifying-federal-procurement-to-improve-performance-drive-innovation-increase-savings.pdf>

² Ibid.