

Chapter 14

THE CHALLENGE OF BRINGING INDUSTRY BEST PRACTICES TO PUBLIC PROCUREMENT: STRATEGIC SOURCING AND COMMODITY COUNCILS¹

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INTRODUCTION

The trend of looking to industry for practices by which public agencies might transform procurement processes is becoming ubiquitous. Notwithstanding the great potential that industry best practices holds for government acquisition, a careful analysis of the differences between public and industry procurement is essential before attempting to implement them. We first discuss the concept of commodity councils in purchasing. We then examine environmental differences between the public and private arenas, including performance measures and organization goals. We then examine barriers to implementation of best practices that arise during implementation, and differences between public and industry procurement. Finally we recommend alternatives for successful implementation.

The President's Management Agenda, presented to Congress in October 2001, established the framework for revolutionizing the way the federal government conducts business. Federal departments and agencies are searching for processes by which they can become more efficient and effective, and that will enhance the value of the dollars budgeted to support their organizations. For example, the Secretary of Department of Defense (DoD), Donald Rumsfeld responded to the executive direction by ordering: "Just as we must transform America's military capability to meet changing threats, we must transform the way the Department of Defense works and what it works on ...our challenge is to transform not just the way we deter and defend, but the way we conduct our daily business" (Department of Defense, 2002, p. 1). Our review of the literature identified methods by which the private sector has made radical, dramatic, and fundamental process changes spurred by global competitive pressures. Best business practices have emerged from this corporate economic war in the global

marketplace. Industry has identified core foundational processes that must be changed to enable the transformation. Our review of the existing literature examined commodity council best practices and instances where public procurement organizations have attempted to utilize these practices.

COMMODITY COUNCILS

Strategic sourcing is one process that industry has applied with great success as a means of controlling the cost of manufacturing and operations. The objectives of strategic sourcing are the “development and application of a carefully crafted strategy for procurement of quality supplies and services at the lowest total cost” (Gabbard, 2004, p. 5). While various terms are used to describe the process by which strategic sourcing is implemented (e.g. purchasing groups, internal cooperatives, commodity teams, etc), our research focuses on the implementation of strategic sourcing via commodity councils.

Commodity council is a term used to describe a cross-functional sourcing group charged with formulating a centralized purchasing strategy and establishing centralized contracts for enterprise-wide requirements for a selected commodity grouping. Following the council’s strategic sourcing actions, decentralized units then execute tactical ordering against those pre-established business agreements (Air Force, 2004b).

The commodity council process identifies crucial products and services for centralized management, develops an enterprise-wide strategy to support the commodity and executes the strategy at the lowest level practical in the organization. The use of the term “commodity” by these groups does not imply that only non-complex items can be purchased through commodity council strategies. Commodity councils have been established for product groupings ranging from manufacturing component parts to professional services (Carbone, 1999)

The commodity council concept is predicated upon maximizing the cost-reduction advantages of “leveraging combined buying power for volume discounts” (Air Force, 2004), utilizing market experts to formulate sourcing strategy, and forming strong relationships with preferred suppliers. The key to the commodity council approach is relying on market experts in the specific commodity being purchased to make well-informed, market-savvy sourcing decisions that fully meet all enterprise-wide requirements.

The process is managed by a cross-functional executive steering committee consisting of a senior executive acting as a commodity group champion and commodity subject matter experts (“UTC Cuts Software,”

2002). Working groups comprised of buyers and other representatives within the organization that have a stake in the outcome of the acquisition strategy work with the executive steering committee to analyze the market environment, considering internal and external factors to make appropriate strategy recommendations (“UTC Cuts Software,” 2002). The working group meets periodically in support of strategy but typically performs these duties on a part-time basis. Finally, the senior executive charged with sponsoring the commodity council will normally be given responsibility for worldwide spend for the commodity to ensure compliance with the strategy throughout the organization (Carbone, 2002).

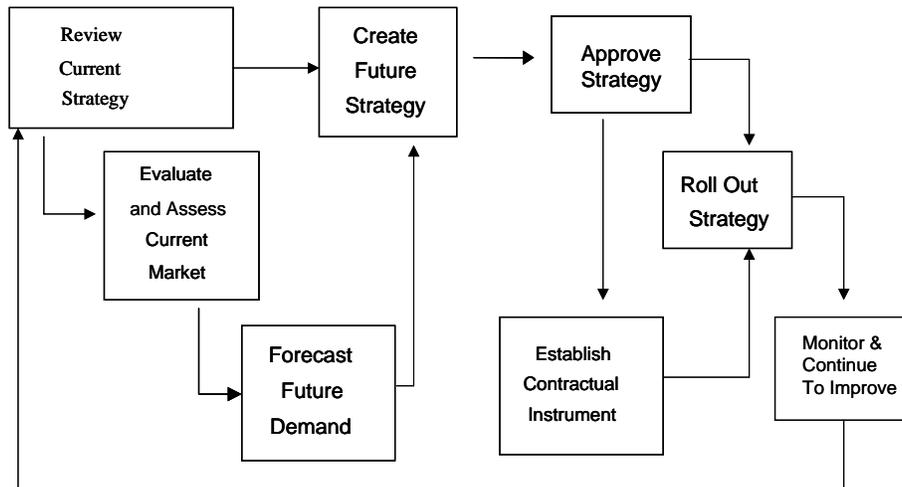
While cost savings is a major goal of the commodity council, the private sector recognizes that centralized purchasing management and leverage is not about beating up suppliers. According to Gene Richter, who pioneered the commodity council process at IBM “. . . the best thing about leveraging is leveraging brainpower. Nobody can afford to be an expert in everything at every location” (Carbone, 1997, p.75). Sharing knowledge across organizational lines is as critical to the success of the commodity council as aligning and exchanging ideas with the market.

Collaboration is the hallmark of the commodity council process popularized by IBM (Carbone, 1999). The commodity council consists of eight basic steps: 1) understand how the commodity is currently purchased; 2) determine the market condition; 3) forecast a demand and spend plan for the commodity; 4) develop a written strategy for the commodity group; 5) communicate the strategy to the user community and get approval of the strategy; 6) establish the contractual instruments for the strategy; 7) execute in accordance with the strategy; and 8) monitor the strategy and measure its performance against strategic targets (Air Force, 2004a). The commodity council strategy formulation process is depicted in Figure 1.

The first benefit of the commodity council process is that spending is leveraged at the enterprise level (private sector firm; public sector department or agency). In addition to potential large lot pricing discounts, cost savings occur in process efficiencies. When individual operating locations stop buying individually, they reduce the cost of the goods or services purchased.

The second major benefit is a reduction in the cost that it takes to conduct the business of purchasing the goods. Managing multiple supplier relationships and multiple contracts for similar items is much more expensive than managing an optimized supplier base and reducing the number of contractual vehicles to support those relationships.

FIGURE 1
Commodity Council Process



The third major benefit is configuration simplification. When an enterprise utilizes multiple configurations of similar products, it increases the cost of technical support and spares, and negatively impacts the processing time required to secure support and spares. Commodity councils also allow organizations to foster competition among industry partners, and to focus support for small business through enterprise-wide strategies (Air Force, 2004).

Each of these benefits has been demonstrated by the use of commodity councils in the private sector. Specific examples of these benefits from the private sector are presented in the following section.

PRIVATE SECTOR EXPERIENCE

Private sector firms have experienced great success in implementing the commodity council process. These successes are highlighted by tremendous cost reductions, increases in productivity, quality improvements and dramatic increases in return on investment. In many cases the process was implemented in response to changes in the environment that threatened the performance, and in some cases, the existence of the firm. IBM utilized commodity councils to return from the brink of failure in the early 1990s (Carbone, 1999). IBM went from outsourcing 28% of their components in 1986 to 51% in 1998 (while realizing pricing discounts 5-10% below

industry average (Carbone, 1999). The business model shift required centralization of the purchasing function and the establishment of 17 commodity councils to leverage IBM's tremendous buying power. The company has saved millions, directly impacting IBM's bottom-line profit (Carbone, 1997).

United Technologies Corp (UTC) improved productivity and profitability by implementing the process and changing their business model from total vertical integration to outsourcing to lower cost manufacturers (Carbone, 1999). UTC focused on consolidating purchasing in business units ranging from high tech aerospace companies such as Pratt & Whitney, UTC Fuel Cells, Hamilton Sundstrand, and Sikorsky, to building industry companies such as Carrier, and Otis ("UTC Cuts Software," 2002). UTC established commodity councils in "general procurement (IT and telecom, office technologies, nontraditional services) with a cost reduction target of \$500 million on annual spend of \$4 billion" ("UTC Cuts Software," 2002).

UTC established objectives to include outsourcing to offshore suppliers and aggressively consolidating the vendor-base by establishing a preferred provider list. In IT alone, UTC reduced its cost by 50%. Other high tech firms have had similar experiences, such as BellSouth and Lucent Technologies ("UTC Cuts Software," 2002). Following the philosophy of lean thinking, each has set aggressive cost, quality, and productivity improvement targets in order to increase profitability. In each case, these companies are acting as a single buying unit that is based on collaboration with the marketplace and unity of purpose in the company.

Other improvements beyond cost reductions can be realized from strategic sourcing and commodity councils. Kodak developed a unique industry forum as a result of a CEO challenge to reduce procurement costs by \$1 billion in a three-year period (Smith & Hendrick, 2003). The forum enhanced the company's communication with vendors, provided opportunities for vendors to submit cost savings productivity improvements, and fostered vendor-base rationalization. Kodak used the conference to demonstrate to the vendor base that those vendors that showed competitive improvement and involvement would continue to be invited back to future forums. Kodak measured the success of the commodity forum by the reduction in the vendor base, an increase in the number of vendors with ISO 9000 certification, and documented cost reductions of \$24 million in 2002 and \$10 million in 2003 (Smith & Hendrick, 2003)

As previously mentioned, a significant benefit of strategic sourcing is realized through the use of a standard configuration. Southwest Airlines' decision to streamline its fleet by selecting one aircraft type has often been

cited as the impetus behind its financial success. A major contributor to Southwest Airlines' success is that they fly one airplane—the Boeing 737 (Hanser, 2002). As a result, pilots and mechanics are trained on only one airplane. “Having a single airplane model in a fleet also lowers inventory, record keeping and maintenance costs, and it minimizes the number of technical manuals, tools, and spare parts” (Hanser, 2002).

PUBLIC SECTOR EXPERIENCE

Public sector purchasing, in particular federal procurement, is often thought of as being highly centralized. This perception stems from the implementation of central purchasing regulations and guidelines such as the Federal Acquisition Regulation (McCue & Gerasimos, 2001). While centralized policy has been a characteristic of federal procurement, centralized policy has focused on the guidelines for conducting purchasing in a decentralized manner. Procurement professionals use the regulations to conduct business at the local or unit level, rather than leveraging the tremendous buying power of federal agencies.

With the focus of buying organizations on serving the local customer, the public sector has been slow to adopt strategic sourcing techniques. There are however some agencies attempting to be early adopters of the commodity council process.

The Air Force has developed a commodity council concept based on industry practice using the model developed by IBM (Air Force, 2004). Spurred on by reductions in personnel and operating and maintenance budgets, the Air Force has been forced to transform its method of acquisition strategy development. After performing a rigorous spend analysis, it was discovered that “the service was buying thousands of similar items individually worldwide” (Karas, 2004, p. 1). Further, Charlie Williams, the Air Force's deputy assistant secretary for contracting, stated “we are missing opportunities to leverage our dollars by relying heavily upon local strategies” (Karas, 2004, p. 1). The principle objectives of Air Force strategic sourcing and commodity councils are to buy in bulk; leverage spending power; and buy standardized items in common configurations (Gaylord, 2004).

The Department of Defense is in the early stages of exploring commodity council opportunities across all military services. The initial DoD spend analysis indicated that opportunities existed in the services area and selected administrative services for their first council. DoD expects substantial savings to accrue from this effort (Esig, 2004).

The Department of Homeland Security (DHS) has implemented similar strategies based on the IBM model. DHS has had initial success in developing strategic sourcing agreements for small caliber weapons to be used by 22 different agencies. DHS has also initiated 13 other cross-functional commodity councils tasked with creating sourcing strategies for goods and services acquired throughout the Department. “Councils govern a wide range of requirements, from simple items such as office supplies, to more sophisticated requirements, such as boats and their maintenance, or complex IT infrastructure needs” (Loy, 2004). Savings accrued from buying office supplies in a leveraged strategy has yielded approximately \$750,000 over a six-month period for DHS Headquarters alone (Loy, 2004). DHS expects savings of \$100 million in 2005 (Kair, 2004).

DIFFERENCES BETWEEN PUBLIC AND PRIVATE PROCUREMENT

The most apparent difference between private and public organizations’ use of commodity councils is that industry has had a great deal more experience with the process. Because of the relatively recent introduction of the process to public procurement, an assessment of the process in that arena is only now becoming possible.

Before assessing the specific differences between public and private sector implementation that we identified in this research, it is important to review the fundamental differences in procurement between the two sectors.

The major difference between public and private procurement is the regulation in the public sector stemming from the fact that “the sheer magnitude of procurement outlays has on local, state and national economies” (Thai, 2001, p. 24). Acquisition regulations at all levels dictate contract style and format. Further, the public sector has a fragmented and complex organization structure that confounds process efficiency. The public sector operates within a very constrained democratic framework, under multiple branches of government (Drabkin and Thai, 2003). Finally, public procurement enacts social programs that promote dispersion of wealth by providing for economic opportunities for small businesses, disadvantaged businesses, and other classes of protected groups (Thai, 2001).

The existence of multiple stakeholders and multiple regulatory agencies exerting influence on the public procurement process eliminates the possibility of an optimized procurement solution (Thai, 2001). For example, a solution that leverages the buying power of public organizations may limit or exclude small businesses. If measured by cost savings alone, such a

solution would be termed successful. In the public arena however, the failure of this solution to address the interests of multiple stakeholders might prove untenable.

By contrast, the private sector utilizes profit as the primary motivator to drive constant innovation in an ever more competitive marketplace. Professional ethics and the uniform commercial code ostensibly serve as the basis of private sector procurement (Thai, 2001). But it is the effort to affect the fundamental profit equation that influences purchasing decisions for private firms. The business case for a procurement decision carries tremendous weight in the private sector, often trumping other factors that are considered.

Private sector firms are concerned with social welfare, but only as it relates to image and corporate stewardship. Increasing stockholder wealth governs the practical aspects associated with procurement innovation in the private sector.

It is important to note these critical differences between the two sectors when considering whether or not best commercial practices should be adopted for use in the public sector. Is the practice suitable for the constraints placed on public procurement? Will the process translate to the public arena? Will the historical local/low level execution of public procurement prove to be a barrier to implementation of the best practice? Through the case studies that follow, we attempt to determine the answers to these and other questions in the specific example of one industry best practice: strategic purchasing commodity councils.

METHODOLOGY

A case study analysis was used to conduct this research in order to: 1) evaluate the environmental differences between the private and public sector; 2) examine the barriers to implementation of commodity councils; and 3) recommend a strategy for successful implementation in the public sector.

A case study of qualitative data enabled us to organize a wide range of information and analyze that information through comparison. Specifically, qualitative research is descriptive and inductive in nature. It involves fieldwork where the researcher is primarily concerned with the process, interested in personal meaning, and interested in the primary instrument for data collection and analysis (Creswell, 1994, p. 145). Existing studies are few in number and tend to highlight what was done correctly without objective comparison to the changes experienced.

A survey was constructed that addressed barriers to implementation, best practices, and lessons learned. A team of subject matter experts constructed the survey, and categorized the questions into six areas: 1) job skills/descriptions, 2) training, 3) manpower, 4) reorganization, 5) procedures, and 6) human receptiveness.

The survey was developed and tested by subject matter experts to ensure validity. In addition, a pilot survey was conducted by researchers at the Naval Postgraduate School and later refined based on their encounters. The survey questions are displayed in Table 1.

The sample for our study was selected based on a thorough literature review, which identified public and private firms/organizations that were conducting commodity council activities in 1) information technology; 2) health care, or 3) agency/firm wide procurement. We identified a total of 10 organizations that had implemented commodity councils and were appropriate for further investigation. Our balanced sample included five public and five private organizations.

The public sector organizations investigated were 1) The City of Seattle; 2) The Department of Homeland Security; 3) The Department of Defense; 4) The U.S. Air Force Information Technology Commodity Council; and 5) The U.S. Air Force Medical Service Commodity Council.

The private sector firms selected were 1) Federal Express; 2) Kaiser Medical; 3) Welbourne; 4) Cessna; and 5) Government Technology Solutions Integration (GTSI).

A subject matter expert was identified at each organization or firm to provide information related to the implementation and operation of their commodity council. The interviewees were senior procurement officials (e.g., Director of Purchasing) or senior program managers who were currently managing a commodity council.

We believe that the analysis of the case studies identify key differences between the implementation of commodity councils in the public and private sectors. Once the differences were identified, they were viewed in the context of known general differences in procurement between the two sectors.

Three independent analysts conducted content analysis of the interview transcripts. The findings of these analysts were then compared. Only differences between sectors that were identified by a majority of the analysts were considered to be significant.

TABLE 1
Interview Questionnaire

Job Description
1. What job skills were required for purchasing personnel before implementation of the Commodity Council?
2. What skills are required now (after implementation of the Commodity Council)?
Training
1. What training was required after implementation of Commodity Council(s)?
2. What training was eliminated, if any, after implementation of the Commodity Council?
3. Did your suppliers have the skills/expertise needed to participate in strategic sourcing, implement continuous improvement, etc.? If not, did you provide training for them?
Change in Manpower
1. How many employees did you have dedicated to contracting/acquisition procedures (e.g., purchasing, administration, closeout, etc.) prior to Commodity Council implementation?
2. How many employees do you now have dedicated to contracting/acquisition procedures (e.g., purchasing, administration, closeout, etc.)?
3. Did you upgrade any purchasing positions to reflect the more sophisticated skill levels required to implement strategic sourcing?
4. Based on a new desired skill set, was there a great desire/need to hire new employees?
Company/Division Realignment
1. How would you describe your former organizational structure (e.g., wiring diagram, organizational chart, matrix, etc.) prior to Commodity Council implementation?
2. How would you describe your organizational structure (e.g., wiring diagram, organizational chart, matrix, etc.) following Commodity Council implementation?
3. Did your implementation plan include organizational changes, i.e., centralization/decentralization, sourcing teams focused on specific product groups? If so, how did the organizational changes map to your strategic goals for purchasing changes?
Change in Procedures
1. How would you describe your former purchasing practices (i.e., functional purchasing processes, focus on pre-award contract negotiation, short-term contracts, smaller contracts, intensive oversight, etc.)? What new practices were adopted following Commodity Council implementation? Who determined the priorities and scope for these changes?
2. What are the most significant and difficult changes you have implemented? Please explain.
3. What changes have been the most successful? What were your greatest challenges?

TABLE 1 (Continued)

Human Aspect
1. What barriers, impediments, or challenges to change have you encountered, if any (i.e. policy, culture, skills, organizational structure, information, disincentives)?
2. How did you communicate the implementation plan to those involved in implementing the changes? More broadly throughout the organization? To suppliers?

Finally, these results were used to identify significant challenges that exist for public procurement in adopting best practices related to commodity councils.

RESULTS AND FINDINGS

The following categories are summaries of the findings that were captured as best practices and trends at both private and public sector entities. A gap analysis of private sector and public sector responses was performed, and the differences are described at the end of each category.

Job Skills/Descriptions

Private Sector

Prior to the implementation of commodity councils within the private sector, the functions of a purchasing professional included traditional purchasing functions: identifying the customer's requirement, solicitation, evaluation, award, and administration. Since the inception of commodity councils, private industry expressed the need for a strategic buying focus as opposed to a tactical one. Industry is currently advertising jobs that seek individuals with cross-functional experience and a good working knowledge of the entire supply chain. Industry also expressed the need for risk management specialists.

Public Sector

The public sector organizations were seeking individuals with experience in the following areas: market research, acquisition strategy development, budget/cost analysis, performance-based service acquisition, and market forecasting. Although these tasks are not entirely new to the purchasing profession in the public sector, these skills are now being incorporated into the new job descriptions for commodity council members.

Differences in Job Skills/Descriptions

Survey evidence does not suggest that industry has more rapidly deployed a call for more skilled individuals as a result of commodity council implementation. However, industry has been more aggressive in hiring former project managers, material managers, and other functional specialists who are more versatile. For example, our interviews showed that a purchasing professional in the private sector may be required to generate the requirement, conduct a full market analysis, award the contract, and administer the contract, while also capturing useful data for insight towards forecasting future requirements.

Training

Private Sector

The surveys from the private sector revealed additional training as the result of commodity councils. The type of training included commodity purchasing, finance training, and supplier symposiums. In one instance, the firm had commodity council members (e.g., engineers, procurement personnel, finance, and manufacturing) spend three days with a supplier as part of their training. This familiarizes team members with a supplier's processes and not just a bottom line price. In another example, the company held symposia with both in-house personnel and supplier personnel to articulate the firm's strategic vision, and describe new procurement tools and sourcing events.

Public Sector

The survey indicated that the government has experienced a limited increase in the training required. In general, most of the training cited in the interviews involved familiarity with the commodity council process and strategic sourcing. Finally, there was mention of additional training involving program management and general purchasing concepts.

Differences in Training

The fundamental difference in this area involves supplier training. The private sector has made a more concentrated effort to engage its suppliers so that they understand the changes that will result as strategic sourcing and commodity councils become normal business practice.

Manpower

Private Sector

Data from the survey did not suggest a significant decrease or increase in the number of personnel. Only one firm alluded to manpower cuts of about 20% within the procurement section. However, it was not directly attributed to strategic sourcing. There were instances where procurement personnel were asked to perform non-buying functions. Also, the data did not suggest that positions were upgraded based on more sophisticated skill sets. Of particular interest was evidence that suggested less opportunity for promotion within purchasing. It could be surmised that this is a result of blanket contracts, which do not require the same level of procurement expertise after they have been awarded.

Public Sector

The public sector surveys suggest that more manpower is needed with the use of commodity councils. In many cases the government has had to seek contractor support to assist during the strategy-building phase. In many cases, funding was identified as a barrier to implementation.

Differences in Manpower

The appropriation types or “colors” of federal money make it extremely difficult to move personnel from one job to another. It is our opinion that this is a major challenge for public sector implementation. In industry’s case, it is not a barrier to implementation. The private sector has been more successful in justifying a one-for-one tradeoff in personnel as these innovations have been realized.

Reorganization

Private Sector

There was not a tremendous amount of change in the organizational structure. The surveys indicated that private sector commodity councils and strategic sourcing teams had a direct line to upper management. This puts purchasing in the limelight by requiring it to coordinate its activities and achieve corporate level buy-in prior to making decisions.

Public Sector

The government organizations did not report significant re-organization. Of interest was the public sector’s separation of the acquisition planning and

contract monitoring and execution functions. This change has driven the commodity councils within the public sector to focus their efforts toward transitioning from the traditional decentralized approach to a requirements generation process that includes a centralized strategy with decentralized execution.

Differences in Reorganization

The most notable difference in the private and public sector involves the strategic exposure of contracting and the enterprise concept. The private sector has made procurement/purchasing more strategic in nature. The public sector has given high-level visibility to many of its commodity councils; however, the span of control and lines of authority are often muddled, which results in many functional stakeholders being unwilling to participate.

Procedures

Private Sector

The predominant trend in industry is to focus on achieving higher quality at a lower price. No specific methods or procedures were offered as the basis for this approach. The procurement procedures remain the same, but expectations are that a Cadillac-type product can be obtained for a Volkswagen price. This is based on establishing partnerships/alliances with strategic suppliers.

Public Sector

The surveys suggest that the public sector's main goal is to leverage its buying power. With so many divisions within each federal agency, it is easy to underestimate the number of dollars it can leverage. In the past, each division would determine its requirements, and the contracts were then awarded and administered separately. The trend in the public sector commodity council is to consolidate division requirements and to standardize configurations. This has resulted in a significant cost savings/avoidance for the organization.

Differences in Procedures

Significant differences were not identified between the private and public sector in this category. The data indicate the procedures for procurement are relatively the same. The surveys suggest that the public sector should be aware of the other functional areas and suppliers. If these

stakeholders are not participants at the earliest possible stage of the strategy formation, they could delay the implementation of the strategy significantly.

Human Aspect/Receptiveness

Private Sector

As with any change, there's always going to be some resistance. The ability to communicate the change in a buying process, and establishing metrics tied to the firm's success were identified as critical links between management and the workforce. As one manager suggested, success breeds more success. If the metrics reveal positive trends, there is more likelihood that the workforce will support the change. The interviewees did not keep the new approach secret, nor did they slow the transition down. The recurring theme among the private sector was to get everyone on board via e-mails, 'city-council' meetings, training, or with word of mouth.

Public Sector

The respondents identified several barriers to implementation. These included socio-economic concerns, the fear of losing procurement jobs, and the customer's fear of losing control of the requirements generation process. The public sector is required to meet procurement percentage goals, which support small and small-disadvantaged businesses. Many opponents to the strategic sourcing concept have suggested that the public sector will put smaller companies out of business with an enterprise-level strategic supplier approach. Civil service workers are concerned about elimination of purchasing jobs. The fear is that as purchasing becomes centralized, fewer people will be needed for contract execution at the field activities. Finally, the customers who generate the requirements worry that commodity councils will not include mechanisms that will provide for flexibility and personal attention.

Differences in Human Aspects/Receptiveness

The private sector has been more successful at providing the catalyst for this change. One apparent explanation for this rests with bottom-line management. On the private sector side, the stockholders want to know that the company is becoming more efficient in the way it conducts business. On the public sector side, the profit motive is not a discrete motivator. The challenges for the public sector include: incorporating enterprise-buying strategies that will ensure small business goals are met, hiring and retaining top achievers, and allowing personnel to cross-flow into other non-purchasing positions. Finally, methods must be included that accommodate

special interests by stakeholders. In our opinion, the area of change management will be extremely volatile in the public sector.

CONCLUSIONS

The primary differences between the implementation of commodity councils in the public and private sector have been identified in the sections above. The implications of the fundamental differences between the two sectors in all procurement activities appear to be magnified by attempts to implement commodity councils.

The first major difference identified was that multi-skilled professionals are required to implement and operate the commodity council process. The private sector has made progress in moving toward multi-skill training. The public sector has made little progress. This may be attributable to the inflexible nature of public sector training programs. Civil service employees are coded in a specific job category, and receive training for that job series. Gaining access to training beyond your specific job series is often prevented by the organizational training regulations.

This challenge may be met by implementing a new “commodity council” job series and developing the multi-skilled training program necessary to prepare employees to excel in those positions.

The second major difference identified was in establishing the personnel positions required to support the commodity councils. The data indicate that private industry has much greater flexibility to reorganize and place resources where they are required to implement and execute the new process. The public arena is burdened with an inflexible personnel system that assigns control of human resources to the local level rather than a central level. This process gives local directors control of the resources necessary to accomplish their mission, but its inflexibility prevents the organization from pulling back resources to support enterprise level strategies such as commodity councils.

This challenge requires a significant restructuring of the existing system. Local area directors are understandably reluctant to give up the manpower that is currently used to meet local mission requirements. The organization must develop a staffing plan at the enterprise level to meet these needs. Potential solutions include the utilization of efficiency funds, or savings from the new process to pay for the transitional staffing requirements. An alternative solution may be to assess a manpower “tax” on all local operating agencies and pull that staffing back to the enterprise level in order to support enterprise-wide requirements.

The final notable challenge in implementing this industry best practice is satisfying the disparate stakeholders in the public arena. In the private arena, the business case carries tremendous weight in the strategy formulation process. It often trumps socio-economic, supply base consolidation, and other considerations. In the public arena, one letter from a small business that perceives they have been slighted as a result of leveraged buying is enough to derail an enterprise-wide strategy.

The key to meeting this challenge is to first realize that it is very difficult, if not impossible, to reach an optimal procurement solution measured solely in terms of price. Instead, a strategy must be measured through a variety of metrics to ensure that at least a minimum level of “success” is achieved for each stakeholder group in each strategy. Commodity council leaders may find that attempting to please everyone ends in the unfortunate result of pleasing no one. If commodity councils find it politically impossible to develop such a strategy, we recommend that the council formulate several strategies simultaneously. By using this technique, the council can meet various stakeholder interests in portions of the broader overall strategy, and still accomplish some of the leveraged buying goals of the council.

NOTES

1. The views expressed in this paper do not represent the views of the United States Air Force or the Deputy Assistant Secretary of the Air Force for Contracting.

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