

Highlights of [GAO-13-417](#), a report to congressional requesters

Why GAO Did This Study

In fiscal year 2012, the federal government spent \$307 billion to acquire services. The private sector is also reliant on services. Over the last 5-7 years, leading companies have been examining ways to manage their services in order to maximize returns and minimize inefficiencies. Given the amount of federal spending on services, GAO was asked to identify leading practices used by large commercial organizations for purchasing services. GAO identified (1) leading company practices for purchasing services, and (2) potential opportunities for federal agencies to incorporate these practices based on prior work.

To determine leading companies' practices in this area, GAO selected a nongeneralizable sample of companies based upon a literature search and recommendations from Defense and industry organizations that have studied services acquisition. GAO identified and interviewed officials from seven companies, an industry group, and a consulting organization. To identify opportunities for agencies to adopt leading practices, GAO compared the types of services purchased by agencies in fiscal year 2012 with those purchased by companies. GAO also relied on prior, relevant work related to federal procurement of services and OMB initiatives for expanding agencies' use of strategic sourcing.

What GAO Recommends

GAO has made recommendations in previous reports to help agencies strengthen strategic sourcing practices, which agencies concurred with and have planned actions under way.

View [GAO-13-417](#). For more information, contact Cristina Chaplain at (202) 512-4841 or chaplainc@gao.gov.

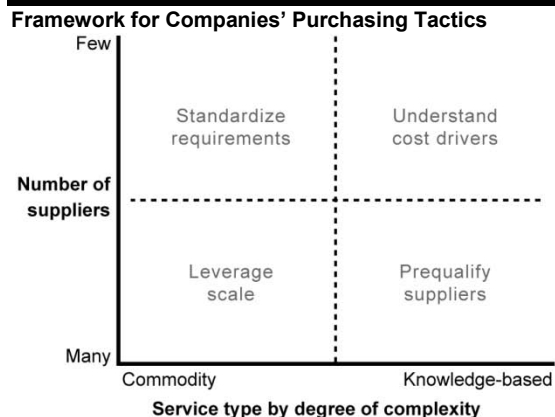
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STRATEGIC SOURCING

Leading Commercial Practices Can Help Federal Agencies Increase Savings When Acquiring Services

What GAO Found

Officials from leading companies GAO spoke with reported saving 4-15 percent over prior year spending through strategically sourcing the full range of services they buy—a process that moves away from numerous individual purchases to an aggregate approach. The federal government and leading companies buy many of the same services, such as facilities management, engineering, and information technology. Companies' keen analysis of spending, coupled with central management and knowledge sharing about the services they buy, is key to their savings. Their analysis of spending patterns can be described as comprising two essential variables: the complexity of the service and the number of suppliers for that service. Knowing these variables for any given service, companies tailor their tactics to fit the situation; they do not treat all services the same. Company tactics fall into four basic categories, depicted in the framework below.



Source: GAO analysis.

To illustrate how buying tactics are tailored, Walmart leverages its scale to compete basic or commodity services that have many suppliers, such as maintenance. When buying sophisticated services with few suppliers, such as consulting, Dell negotiates cost drivers such as labor rates. The framework is dynamic: over the long term, companies seek to reduce complexity and bring in additional suppliers to take advantage of market forces like competition.

Federal agencies have sizable opportunities to leverage leading commercial practices to lower costs and maximize the value of the services they buy. In September 2012, GAO reported that large procurement agencies such as the Department of Defense and Veterans Affairs leveraged only a fraction of their buying power through strategic sourcing and faced challenges analyzing reliable data on spending, securing leadership support, and applying this approach to acquiring services. GAO recommended that these agencies and the Office of Management and Budget (OMB) issue guidance, develop metrics, and take other actions. The agencies and OMB concurred. OMB directed agencies to take actions to overcome these challenges. Potential savings are significant considering a savings rate of 4 percent applied to the \$307 billion spent by federal agencies on services in fiscal year 2012 would equate to \$12 billion.