In March of this year, the Office of Management and Budget (OMB) released the President’s Management Agenda (PMA) for fiscal year 2019 (FY19), outlining a long-term vision for modernizing the Federal government. The Administration hopes to improve the ability of agencies to deliver superior mission outcomes, provide excellent service, and manage taxpayer dollars effectively.

To achieve this vision, the Administration developed Cross-Agency Priority (CAP) goals to coordinate and publicly track the implementation of the various PMA initiatives across Federal agencies. These CAP goals consist of three primary drivers of transformation, as well as three cross-cutting priority areas and five functional priority areas – one of which is category management, an initiative launched by the previous administration with the aim of enabling the Federal government to buy smarter and more like a single enterprise.

Through its category management initiative, the Federal government has dissected the entirety of its government-wide spend into ten major spend categories1 with the intent of improving performance, driving innovation, and increasing savings. This will be achieved primarily by reducing duplicative contracts and by leveraging common spend for economic efficiencies.

The FY19 PMA calls on category management to do nothing less than intended, with an expectation to – by the end of FY20 – achieve $18 billion in savings for taxpayers by applying category management principles to 60% of the Federal government’s common spend (e.g., approximately $181.8B of $303B by FY17 estimations).2

While admirable – in that the aim is to save American taxpayer dollars – when viewed in context, the CAP goal of $18B in savings by FY20 is only approximately 10% of the Federal government’s annual common spend. Furthermore, the CAP goal isn’t exactly clear on what time period should be accounted for when calculating these savings – a distinction that is of great importance.

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1 Nineteen categories if including defense-centric categories.
For instance, if the goal is to achieve this number of savings dating back to the FY15 launch of the Federal government’s category management initiative, the CAP goal amounts to an average of 2% savings per year. On the other hand, if the savings are calculated beginning in FY18, the goal amounts to approximately 5% savings annually.

Either way, the CAP goal falls below the average savings achieved by category management initiatives implemented by “best-in-class procurement organizations” in the private-sector.

In fact, a recent industry survey reported that similar procurement organizations in the private-sector achieve an average of approximately 9% savings annually, with an estimated 5% of that being hard savings versus cost avoidance.

Furthermore, the majority of these hard savings have come from effective category management implementation within the areas of information technology (average 14%), marketing and advertising (average 11%), facilities management (average 10%), and professional services (average 9%) – all of which comprise the top three major spend categories for the Federal government.

Based on these figures, if the Federal government could achieve industry average hard savings in just these three categories, it could save approximately $23B in just one fiscal year alone; however, as the Federal government’s category management initiative currently stands, the data gives us no reason to believe that it will achieve the $18B in savings by the end of FY20.

**Why, you might ask?**

The Federal government is setting savings goals that are significantly below the averages obtained by industry. In fact, for the top three categories – facilities and construction, professional services, and information technology – the savings goals for FY18 and FY19 when compared to the industry average look something like this:

<table>
<thead>
<tr>
<th>Category</th>
<th>FY18 Savings Goal (%)</th>
<th>FY19 Savings Goal (%)</th>
<th>Industry Average (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities and Construction</td>
<td>0.01%</td>
<td>0.02%</td>
<td>14%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>1.14%</td>
<td>1.11%</td>
<td>10%**</td>
</tr>
<tr>
<td>Information Technology</td>
<td>3.45%</td>
<td>3.54%</td>
<td>10%</td>
</tr>
</tbody>
</table>

*As a percentage of the spend under management goal.

**Average of professional services (9%) and advertising and marketing (11%) from the industry survey.

As one can see, the Federal government’s category savings goals are 7–14% lower than the averages obtained by industry organizations in the same or similar categories.

While this paper does not analyze the remaining categories, it would not be highly unreasonable to suspect that the other categories have been underset as well.

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4 Hard savings is defined as a reduction from prior year spend for the same or similar item that is included in normal ongoing expenses.

5 Cost avoidance is defined as an estimated value that is potentially or probably saved, but cannot be known with certainty.

6 The Federal government’s top three categories by spend are: (1) facilities and construction ($81.2B), (2) professional services, including marketing and public relations ($71.1B), and (3) information technology ($56.7B).
How could the Federal category management teams go about fixing this?

One way to counteract this would be to open collaborative lines of communication with private-sector “best-in-class” procurement organizations that excel at obtaining significant savings in these categories.

While these organizations’ categories may not align perfectly to the Federal government’s, they likely overlap to some extent. As a result, these organizations could share some of the insights and best practices they’ve learned with the Federal government’s category management teams so that the Federal government can quantify and set better savings goals for each category and develop strategies to advance these higher savings goals.

Another reason the Federal government may be at risk of not meeting its $18B by the end of FY20 goal is that the majority of the categories have consistently missed their savings goals since the implementation of the Federal category management initiative. In fact, across FY16 and FY17, 60% of the categories failed to meet their savings goals, some by as much as 93%!

While there could be a silver lining in that relatively substantial savings were achieved in spite of missed goals, the more concerning and underlying fact is that missed goals are fairly consistent across the board each year.

To ensure that the overall category management savings goal is consistent with individual category initiative goals, a thorough consolidated review should be conducted and any discrepancies should be addressed until they balance.

Furthermore, there were a few categories where potential savings were stated in the footnotes, but not recognized in the calculations. Instead, a decision should be made to either include or omit these items; and, once these savings are confirmed, an update should be made to the savings goal reflecting such developments.

Last, but not least, while there are some Federal category management teams that realistically estimated a decrease in annual savings over time, the majority of them appear to – optimistically, but likely unrealistically – expect around the same amount of savings – or, some cases, more – year-over-year.

The reality is that as the various initiatives implemented in the name of Federal category management take hold, the delta within which potential savings exist will begin to narrow. At that time, Federal category management teams will need to shift the majority of their focus to other value-added initiatives (e.g. better customer service, decreased PALTs, additional service/product offerings, etc.), which are just as important to the overall success of the Federal government’s category management initiative as the savings themselves.

Overall, the Federal government has done considerably well given the complexity of coordinating the spend of 430 departments, agencies, and sub-agencies; however, if the Federal category management teams continue along their same course, it is reasonable to expect that the Federal government will not achieve the $18B in savings from category management initiatives by the end of FY20 called for in the FY19 PMA.

The Federal government must give proper attention to: (1) leveraging best practices surfaced through collaborative communication with private-sector procurement organizations; (2) ensuring consistency between the overall category management savings goals and the individual category savings initiatives; and (3) recognizing and planning for life beyond initial savings. If these three issues are addressed, the Federal government can position itself as not only the largest buyer of goods and services in the world, but also as the world’s largest “best-in-class” procurement organization.