



# Creating Maximum Value through Services Sourcing

Services sourcing represents one of the largest opportunities for organizations to create value

The federal government sources over \$150 billion in services annually, spanning the spectrum from simple (e.g., temporary help) to extremely complex (e.g., maintenance and operations of a nuclear facility). The size and scope of some of these sourcing initiatives are mind boggling, with some exceeding a billion dollars for an individual contract. Add to this the complexity of federal regulations, the myriad of stakeholders who are involved with each buy, and the diverse missions federal agencies must fulfill, and it's safe to say this is one of the most complex sourcing environments in the world.

Through our support to numerous federal agencies, as well as Fortune 500 clients, *Censeo Consulting Group* has identified a common set of challenges and opportunities related to services sourcing. These lessons, three of which we share below, can be applied to both public and private sector purchasing.

## Three Services Sourcing Challenges

### *Challenge #1: Defining a "Service"*

Given the intangible nature of services, the definition of a particular service can vary broadly from one organization to another and even within an organization. There is no "one size fits all" approach. Each organization must do its own due diligence to define its own unique service needs and requirements.

One mistake many organizations make is to aggregate services into overly broad categories. While this may simplify procurements and streamline the number of suppliers, services requiring highly specialized expertise can get lost in the mix. For example, should "Language

Translation Services" be grouped into a broad "Professional Services" service category? Given the specialized nature of translation services, its distinct supply base, and the different underlying economics of other "Professional Services" firms, the answer would probably be no.

In order to strike the right balance between services aggregation and disaggregation, organizations must consider several key factors. The first is the *demand and usage profile* of the service being sourced, including any unique needs. Another factor is the *nature of the service*. Does the service require a certain level of technical expertise, for instance? The third factor is the *nature of the industry*. Are there many similar suppliers providing the same generic service, or are suppliers few and specialized?

Answering these questions to develop more accurate service definitions will ultimately lead to the right sourcing strategy and maximize value well beyond the obvious value derived through aggregation.

### *Challenge #2: Identifying "Outcomes"*

Failing to identify "expected outcomes" is a common problem in services sourcing. Mistakes made at this point in the sourcing process impact all aspects of a services procurement – from the way requirements are written to how suppliers are evaluated to what metrics are used to measure performance.

The tendency is to "jump" directly to requirements without considering the underlying reasons for purchasing a service. Identifying expected outcomes is not easy. It requires a deep understanding of demand drivers, linkages to business goals, and user needs. And it requires a fundamental change



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Raj Sharma has worked with key stakeholders throughout the federal government to drive the agenda for the adoption of advanced supply management practices in government. He has also worked closely with the U.S. Department of Defense to support the Defense-Wide Strategic Sourcing initiative, as well as with the U.S. Office of Management and Budget to kick off the government-wide Federal Strategic Sourcing Initiative.

in approach and the ability to challenge long-standing requirements.

### **Challenge #3: Determining Pricing/Cost Drivers**

While the importance of pricing transparency is generally understood, the form in which pricing requests are made often fails to provide the level of information required to accurately analyze and compare bids across suppliers. For example, labor rates are often requested at an aggregate level with no further breakdown into labor subcategories or other pricing details. This additional information can be critical in comparing cost structures of suppliers and tying value back to the costs.

Censeo recommends developing pricing requests that provide specific and detailed instructions to suppliers on how to break out costs, while providing flexibility to modify the approach with justification. Detailed pricing data, when combined with a technical proposal, can be instrumental in separating efficient and innovative suppliers from the inefficient ones.

### **Success Factors for Services Sourcing**

The three challenges identified above only begin to address the complexity of services sourcing. The fact is, specific challenges differ by the kind of service being sourced and the organization doing the sourcing. So, how can an organization ensure successful services sourcing efforts that maximize value?

Censeo has identified the following factors as being the most highly correlated to services sourcing success:

- **Governance and Leadership** – Develop a governance structure that includes cross-functional participation and clear accountability and incentives and engages top leadership in supporting the sourcing effort.
- **A Comprehensive Sourcing Approach** – Adopt an end-to-end process that begins with the definition of goals and objectives and extends through sourcing strategy implementation.
- **Analytical Rigor** – Conduct rigorous, fact-based analysis to thoroughly understand internal service needs and the relevant supplier market(s).
- **Industry Engagement** – Collaborate with industry early and often while formulating the sourcing approach for a specific services category.
- **Resource Commitment** – Ensure the right level of dedicated resources, including sourcing managers who have the necessary knowledge and expertise.
- **Ongoing Performance Management** – Establish and proactively manage against performance metrics to ensure both internal and external accountability.

### **Conclusion**

The bottom line is that effective services sourcing requires a different mindset and strategic approach than many organizations

typically use. When implemented correctly, however, services sourcing represents an enormous opportunity for organizations. Total cost savings (not just price) can often exceed 20% to 30% for the most complex services. And the overall quality of outsourced services can be significantly improved.



### **About Censeo Consulting Group**

Censeo Consulting Group, a leader in supply chain management and strategic sourcing, provides management teams the expertise and insight to drive operational improvements and bottom-line results. Censeo delivers exceptional value to clients through deep subject-matter expertise and a unique consulting model that emphasizes people, quality, and cost management.

Censeo has helped numerous federal agencies and Fortune 500 companies launch cutting-edge services sourcing programs that are delivering millions of dollars in total cost savings. Censeo is a certified 8(a) firm.

To learn more about services sourcing, visit Censeo at [www.censeoconsulting.com](http://www.censeoconsulting.com). Or call us at (202) 296-0601.