

# Acquisition Management

## The Costs and Benefits of Procurement Outsourcing

### Research Prospectus

Business Sensitive & Confidential  
November 5, 2003

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## 1 Introduction

Pivotal Insight is a research and consulting firm that provides public sector decision makers with the analysis they need to reduce the risk of buying services and technology. As a specialist in the public sector, Pivotal provides key information, analysis, and understanding to government buyers enabling them to make faster, more cost effective, and more enlightened purchasing decisions. Pivotal gathers key data from buyers on the success of the solutions they purchased and data on contract performance. Pivotal then combines this data with vendor-supplied information to improve the way government and industry work together.

Increasingly government buyers at all levels face complex challenges in determining not only what to buy, but how to buy it. Specifically, many now contemplate outsourcing procurement processes in whole or in part. These decisions have far ranging implications directly impacting:

- What agencies buy and how they buy,
- How well agencies fulfill their broader socio-economic and legislative requirements, and
- Government suppliers across multiple sectors of the economy.

Pivotal is committed to delivering timely research that addresses the significant business and technology challenges facing the public sector and has developed a research agenda to analyze the vital topic of procurement outsourcing. The following pages describe our proposed research methodology. Our objective is to investigate the value and challenges of outsourcing procurement functions, as well as assess what should or should not be considered “inherently governmental.” We now seek one or more sponsors for this effort.

## 2 Problem Statement

A government agency’s goal is and always should be to obtain high-quality products and services as effectively as possible. Stated differently, a government agency should strive to achieve outcomes that represent the best value for the taxpayer. Achieving this goal is a significant challenge. Today, an agency faces a number of substantive and evolving challenges in effectively procuring the services and products it needs. The key challenges are:

- Constantly Evolving Environment & Mission. All agencies have legislative mandates. They also form part of the executive and receive operational direction from an administration. As legislatures and administrations change, so does the mandate. Moreover, the agency itself must react and reflect changes in its environment and advise all branches of government on how to best meet new and emerging challenges. Because the mandate and the environment constantly change, defining “best value for the taxpayer” is rarely cut-and-dry.
- Increasing Volume. Federal expenditures for technology and business services are huge and increasing. Federal expenditures for professional, administrative, and management support services rose from \$12.9 billion in fiscal year 1991 to \$20.3 billion in fiscal year 2001, a 58% increase. Information technology services increased from \$4.5 billion in fiscal year 1991 to about \$15.8 billion in fiscal year 2001, a 251% increase.
- Decreasing Resources. Many agencies face serious management and personnel challenges of downsized acquisition workforces. Overall, the number of federal acquisition personnel has decreased 22 % in the last decade. Many of the remaining acquisition professionals lack sufficient training to perform their functions in an increasingly complex environment.<sup>1</sup> In addition, many agencies lack funding to upgrade existing IT systems or overhaul processes.

Outsourcing procurement functions historically done by agency personnel offers a potential solution to these challenges. Private sector success with procurement outsourcing created an

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<sup>1</sup> Commercial Activities Panel Report on Improving Government Sourcing Decisions, April 2002.

industry capable of serving agencies and giving them access to the resources, scale, technology, and expertise they may lack. At the same time, government procurement presents unique challenges in protecting the public trust and must demonstrate fair and socially equitable decision-making. Fundamentally, outsourcing acquisition is different in the public sector. Navigating conflicts of interest (real or perceived), balancing social responsibility with efficiency, determining best value, and managing risk are substantively different for a government decision maker.

### **3 Proposed Research & Analysis**

It is important for both the public and private sectors to fully understand the opportunities and challenges posed by procurement outsourcing to ensure the best value for the taxpayer. The goal of this analytic endeavor is to define and better understand the cost and benefits of outsourcing government procurement. The key objectives under consideration include:

1. Provide a baseline of government procurement outsourcing activity:
  - What are the current types, levels, applications, and perceptions of current procurement outsourcing activities?
  - What are the best practices and lessons learned?
2. Assess the effectiveness of government procurement outsourcing:
  - Does it produce any acquisition time/cost savings?
  - Does quality of service/product vary between outsourced and insourced procurement?
3. Understand the appropriate role and value of government procurement outsourcing:
  - What types of acquisitions/organizations are appropriate candidates?
  - What portions and/or processes of the procurement function can/should be outsourced?
  - What factors constrain/inhibit government procurement outsourcing?

### **4 Methodology and Pricing**

Pivotal designed Custom Insight™ to address these types of research and analytic requirements. Over a 2-month period, Pivotal will assemble qualitative and quantitative information collected directly from the "horse's mouth" – other organizations who have dealt with similar challenges, relevant vendors, and senior executives – and assemble a succinct report. Our Custom Insight™ Research methodology features:

- Extensive input through surveys and in-person interviews with government officials at all levels and business executives who deal with public and private sector procurement.
- Reviews of existing research and documentation, including policies, legislation, funding availability, and relevant testimony and presentations;
- Research on key trends and indicators within the public and private sectors, including quantitative analysis of procurement data.

To meet the objectives discussed above, Pivotal plans research that will cost a total of \$100,000. Minimum sponsorships for commercial companies begin at \$15,000. Government sponsorships begin at \$7,500. To ensure the credibility and affordability of the report, Pivotal is seeking multiple sponsors from both government and the private sector. Pivotal's status as a small business allows government sponsor to follow simplified procedures for acquisition, including avoiding the competitive bid process and the use of electronic purchasing techniques (e.g. credit cards).

## 5 Why Use Pivotal Insight?

Four things set Pivotal apart from other sources of advisory information and research:

- **Public Sector Focus** – Many entities purport to cover the government marketplace, from research houses, to the media, to “beltway bandit” consulting firms. Pivotal alone offers a specialized focus on the public sector.
- **True Independence** – We occupy a unique position in the market and we hold that position very dear. We do not work for any one vendor and we will never accept a role that would compromise our objectivity or ability to fairly and accurately report on emerging overall industry trends or specific vendor performance.
- **Access** – Our unique position in the market – as truly independent and focused on the public sector -- provides us with access and perspectives unavailable elsewhere. We ask the questions of vendors government buyers can't or won't. We also know the top priorities of government executives and buyers based on direct interaction with them.
- **Confidentiality** – Pivotal's research and projects often involve highly proprietary client information, such as future product roadmaps, procurement evaluation factors, and proposed budgets. You can be certain, when you work with Pivotal, that all client-confidential information is handled with the utmost security and care.