

Category Management: What Contractors Need To Know

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In December 2014, the Office of Management and Budget announced a new initiative called Category Management, a successor to the Federal Strategic Sourcing Initiative ("FSSI") that was implemented in 2010. This policy could dramatically change the way the federal government purchases goods and services and the competitive landscape that government contractors face.

Category Management has three primary goals: increasing savings, reducing the number of new contracts, and increasing the amount of spending that is subject to governmentwide management. Under Category Management, purchases are divided into groups, and the acquisition process is streamlined by using fewer and more efficient contract vehicles to purchase goods and services within a group. The "Government-Wide Category Management Guidance Document," issued in May 2016, described Category Management as follows: "[u]nder category management, the Federal Government will 'buy as one' by creating common categories of products and services across agencies and manage each category as a mini-business with its own set of strategies, led by a Category Manager and supporting senior team with expertise in their assigned category." [1]



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Recent developments in Category Management have brought the program to the forefront. For example, on Aug. 4, 2016, the OMB issued "Category Management Policy 16-3: Improving the Acquisition and Management of Common Information Technology: Mobile Devices and Services." The policy memorandum directed federal agencies to reduce the fragmentation and duplication that exists in the government's procurement of mobile devices and service. The memorandum stated that the government currently utilizes more than 1,200 separate agreements and purchases more than 200 unique service plans. To address this problem, all civilian agencies are now required to use the existing General Services Administration Wireless FSSI program, and the U.S. Department of Defense must use either the Next Generation Wireless Blanket Purchase Agreement; the Navy indefinite delivery, indefinite quantity contract for wireless services, or the GSA Wireless FSSI program. At least one next-generation governmentwide acquisition solution for mobile devices and services will be awarded prior to May 31, 2018, and by Sept. 30, 2018, agencies will be required to consolidate all of their mobile plan requirements to one contract per carrier using a government-wide acquisition strategy. The OMB has issued similar policy memoranda focusing on laptop and desktop computers, software, and identity protection services.

Category Management is not limited to information technologies. The Category Management Leadership Council (which is composed of procurement specialists from across the government) established the following 10 categories: IT, professional services, security and protection, facilities and

construction, industrial products and services, office management, transportation and logistics services, travel and lodging, human capital, and medical. The Category Management Leadership Council also established teams of subject matter experts to develop procurement policies within each category. Each category team is expected to gather and compile procurement data, analyze and assess the data, and identify opportunities to use Category Management strategies. By way of example, the Category Management Leadership Council created the Mobile Services Category Team, which has been tasked with developing a strategic plan for the governmentwide acquisition solution discussed above.

Another recent development occurred in the professional services area. The professional services category is the second largest of the Category Management categories with \$63 billion in spending in fiscal year 2015. This category includes business administrative services; marketing and distribution; public relations and professional communications; financial services; and technical and engineering services (other than information technology). On Aug. 2, 2016, the GSA released the government's new Professional Services Strategic Plan for industry comment. The plan outlines the actions the government will take to manage spending and reduce the number of contracts for professional services. Like mobile devices and services, the government identified fragmentation and inefficiencies in this sector. For management advisory services (the largest subcategory of professional services), the government used more than 14,000 contracts and engaged in more than 130,000 transactions in FY 2014. The plan identified three initiatives to reduce the number of contracts and total costs of ownership:

- Conducting a comprehensive analysis of agencies' buying patterns — including spending and contract duplication;
- Identifying and using existing agency- and governmentwide contracts; and
- Identifying best in class professional services contracts.

There are multiple existing governmentwide and agency level professional services contracts, such as the GSA's Professional Services Schedule, the GSA's OASIS, and the Navy's SeaPort-e. The government plans to create more of these vehicles, including a governmentwide contract for audit support services. The plan set a target of increasing governmentwide contract spending by 10 percent (or \$1.9 billion) for FY 2016.

An additional aspect of the strategic plan is to develop a supplier relationship management strategy and engagement approach to better work with industry. As part of this effort, the GSA is soliciting industry feedback through an online questionnaire. Through the online form (available [here](#)), industry participants can share their thoughts on the plan, recommendations to better understand the industrial base, and suggested steps to improve the supplier relationship.

Some observers have questioned whether Category Management will continue with the next administration. A recently proposed Federal Acquisition Regulation provision suggests that Category Management may have staying power. A June 20, 2016, notice of proposed rulemaking announced an amendment to FAR 8.004. [2] The proposed rule provides:

When purchasing supplies or services that are offered under the FSSI, but the FSSI is not used, the contract file shall be documented to include a brief analysis of the comparative value, including price and nonprice factors, between the supplies and services offered under the FSSI and those offered under the source(s) to be used for the purchase

The proposed rule would amend FAR 8.004, which governs the use of nonmandatory sources. Mandatory sources are those listed in FAR 8.002 and 8.003 and those "otherwise provided by law." [3] Because agencies would be required to document a decision to not use the FSSI, the rule is expected to

increase the use of the FSSI. Currently, goods and services available under the FSSI include express and ground domestic delivery services; maintenance, repair and operations supplies; janitorial and sanitation supplies; office supplies; print management; wireless; and information services. The variety is expected to increase as Category Management continues.

Category Management is largely driven by budgetary considerations. When the OMB issued Category Management Policy 16-1, which focused on software licensing, it reported that the renegotiation for geospatial software will save over \$1.5 million in FY 2016 and \$3 million in future years. The OMB has stated that the GSA Wireless FSSI has already resulted in \$14 million in savings in 2016, and the savings are expected to increase following the mobile devices and services policy memorandum. Overall, the goal is to save \$2.3 billion by December 2016 and a total of \$10 billion by the end of 2019 under Category Management.

Category Management is not without its critics. Some have argued that the promised savings are illusory. In a letter to the GSA administrator, the House Small Business Committee wrote that although agencies are required to use certain vehicles under Category Management, other contracts, such as GSA schedule contracts, often offer lower prices.[4] The committee further explained that under Category Management, suppliers are frequently required to offer numerous goods or services in one bundled contract. If a company has a more targeted portfolio of goods and services, it is unable to compete. This reduces competition, and it may limit the potential cost savings. And, because small businesses generally provide a smaller selection of goods and services, they are particularly affected by this shift toward bundled offerings.

The emphasis on governmentwide contract vehicles has also been criticized. Generally, these procurements are highly competitive. And, because the contracts have long terms, there are infrequent opportunities to compete. With more and more federal dollars moving to these contracts, it will become increasingly important to win these contracts. Contractors that are not selected for award may be shut out of a large segment of federal procurement. This concern is significant for small businesses because of the relatively small number of governmentwide contracts that are set aside for small businesses.

In less than two years, Category Management has begun to reshape aspects of federal procurement, but its final impact is still unclear. If the policies and programs implemented to date are effective, similar initiatives will likely be undertaken in other sectors and industries. Given the number of procurements and the proportion of federal spending that may be affected, this is an issue to which contractors should be attuned.

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[1] Government-Wide Category Management Guidance Document, Version 1.0, May 2015, available at: https://hallways.cap.gsa.gov/information/Gov-wide_CM_Guidance_V1.pdf.

[2] 81 Fed. Reg. 39,885.

[3] FAR 8.002(a).

[4] Small Business Committee Leaders Urge Contracting Changes at Federal Agency, April 5, 2016, available at:<http://smallbusiness.house.gov/news/documentsingle.aspx?DocumentID=398990>.

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