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MASTER OF MILITARY STUDIES

The USAF and Category Management:
Shifting Paradigms to Achieve Affordable Installations in an Age of Fiscal Austerity

SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF MILITARY STUDIES

Brian Sheehan, Major, USAF

AY 15-16

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Executive Summary

Title: The USAF and Category Management: Shifting Paradigms to Achieve Affordable Installations in an Age of Fiscal Austerity

Author: Major Brian Sheehan, United States Air Force

Thesis: Category Management (CM) is cross-functional approach to manage common categories of spend across an enterprise and unlock unrealized value from the supply chain. Implementing CM enables the United States Air Force (USAF) to drive performance in the procurement process, achieve affordable installations, and provides USAF executive leadership the opportunity to transform the USAF by incentivizing organizations to exploit opportunities and overcome challenges.

Discussion: To maintain its competitive edge against its near-peer enemies, the United States Air Force (USAF) must reduce costs to operate and maintain its installations. At the present rate of expenditure, installations are unaffordable and represent approximately eleven percent of all dollars the USAF spends through contracts.¹ The USAF must make significant effort to innovate processes and procedures to manage costs strategically across the enterprise. In an effort to continuously improve, Air Force acquisition leaders seek to identify and implement commercial industry's best business practices to deliver the best value for the Warfighter using tax-payer dollars. Fiscal austerity is present more today than in recent decades, and acquisition leaders are pushing to create a paradigm shift in installation operating and maintenance procurement efforts through the implementation of Category Management (CM). CM is a comprehensive management process built on the foundation of continuous process improvement and developed to provide optics into how effectively and efficiently an organization's purchasing operations procure categories of supplies and services from third party vendors in effort to achieve maximum value from the supply chain. While this innovative approach promises to deliver significant improvements in supply chain management and purchasing performance, there are still significant challenges to creating this change. This paper argues for senior leaders who are directly or indirectly responsible for maintaining and operating Air Force installations to embrace and actively support the institutionalization of CM. In addition, this essay evaluates the apparent opportunities and threats to the initiation and sustainment of this shift in business operations.

Conclusion: The implementation of CM requires a cultural change in the Air Force's procurement of goods and services supporting its installations. There are significant challenges, but also opportunities that can be leveraged. If successfully implemented, CM will reduce the operating cost of USAF installations and derive untapped value from the supply chain to support investment in critical weapon systems.

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Preface

The defense budget is under constant scrutiny and threat of painful cuts. To ensure the USAF's ability to remain the most dominant air force in the world, Airmen must reduce operating expenses. Installations offer an attractive area of opportunity to reduce total ownership cost and transfer those savings to invest in future technology and cover personnel costs. Category Management offers a framework that allows us to manage installations as an enterprise, leverage our position in those market places, and reduce costs across the USAF. However, this change is a paradigm shift in the way we operate and requires functional areas to perform in ways previously not required. I chose this research topic because I am interested in understanding and promoting avenues that promise improved performance in how the USAF spends taxpayer dollars. I strive to be an informed advocate of Category Management and other best practices that improve the procurement process. This research identifies case studies of other corporations who successfully implemented Category Management and delivered significant cost savings. It also makes recommendations for how the USAF can best implement Category Management to achieve similar success.

Many people contributed to this paper; I would like to thank all of those professionals who supported my research efforts. I appreciate the guidance and mentorship from Dr. William Gordon, who volunteered to be my Masters of Military Science mentor. Also, I would like to thank those from SAF/AQC and AFICA who supported my research: Mr. Roger Westermeyer, Lieutenant Colonel Travis Pond, Lieutenant Colonel Julio Negrón, and Mr. Richard Keller. Finally, thank you to Major Eve Baker for editing my essay. All of your contributions are greatly appreciated and helped to improve this paper. I have learned a lot during this process and much

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ABSTRACT (MAXIMUM 200 WORDS) <i>In today's United States Air Force (USAF) there is significant pressure from Congress and the President of the United States to take on increased roles and responsibilities with reduced funding. Fiscal austerity drives leadership to develop innovative methods to do more with less. A significant cost driver in USAF is the cost to operate its installations around the world. Category Management (CM) provides a framework to manage the associated costs from an enterprise perspective and enables the USAF to achieve affordable installations. However, it will take highly visible commitment on the part of Senior Leaders to create a paradigm shift in the USAF installation procurement process. Resistance to change, a lack of CM proficiency within the workforce, and absent incentives within cost-owner organizations all pose significant challenges to the implementation of CM. However, advocates can leverage existing opportunities such as increased political will brought on by fiscal austerity, maturity of Strategic Sourcing organizations, and the recent formation of the Air Force Installation and Mission Support Center (AFIMSC) to make the institutionalization of CM a reality. CM unlocks previously unattainable value from the supply chain, reducing total cost and delivering savings that can be invested by the USAF to advance technology and maintain its competitive edge with near peer rivals.</i>				
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We must commit to changing those things that stand between us and our ability to rapidly adapt. Faster adaptation and response – what I call strategic agility – will sustain the Air Force’s unique contributions that are critical to the nation. By embracing strategic agility, the Air Force will be able to move past the twentieth century’s industrial-era processes and paradigms and be ready for the globally connected, information-based world of the coming decades.²

- General Mark A. Welsh III
Chief of Staff, USAF

There is a critical need for a new paradigm for purchasing that moves from managing purchases and price individually across thousands of procurement units to managing entire categories of common spend and total cost through category management.³

- Anne Rung
Administrator, Office of Federal
Procurement Policy

“To raise new questions, new possibilities, to regard old problems from a new angle, requires creative imagination and marks real advance in science.”⁴

- Albert Einstein

To maintain its competitive edge against its near-peer enemies, the United States Air Force (USAF) must reduce costs to operate and maintain its installations. At the present rate of expenditure, installations are unaffordable and represent approximately eleven percent of all dollars the USAF spends through contracts.⁵ The USAF must make significant effort to innovate processes and procedures to manage costs strategically across the USAF enterprise. In an effort to continuously improve, Air Force acquisition leaders must seek to identify and implement industry’s best business practices to deliver the best value for the Warfighter using tax-payer dollars. Fiscal austerity is present more today than in recent decades and procurement leaders are pushing to create a paradigm shift in installation operating and maintenance procurement efforts through the implementation of Category Management (CM). Thomas Kuhn describes paradigms as “the core commitments of scientific communities, whose boundaries are defined by their shared acceptance of a paradigm.”⁶ Those core commitments include “values, standards,

methods, and relevant factual background that govern the resolution of scientific disputes.”⁷

When a community finds itself in crisis and is forced to accept a new paradigm to resolve the conflict, a paradigm shift occurs. Kuhn goes on to say that a paradigm shift occurs when a community has “learned to see nature in a different way”⁸ and a paradigm shift represented such a dramatic change that he compared the “acceptance of a new paradigm to converting to a new religion.”⁹ While Kuhn’s work centered largely on scientific revolutions, his work and findings can still be applied to a non-scientific community such as procurement. The values, standards and methods required to make CM effective oppose many of core commitments present today. CM is a comprehensive management process built on the foundation of continuous process improvement and developed to provide optics into how effectively and efficiently an organization’s purchasing operations procure categories of supplies and services from third party vendors in an effort to achieve maximum value from the supply chain.¹⁰

While this innovative approach promises to deliver significant improvements in supply chain management and purchasing performance, there are still significant challenges to creating this change. This essay advocates that senior leaders who are directly or indirectly responsible for maintaining and operating Air Force installations, shall embrace and actively support the institutionalization of CM. In addition, this essay evaluates the apparent opportunities and threats to the initiation and sustainment of this shift in business operations. CM is cross-functional approach to manage common categories of spend across an enterprise and unlocks unrealized value from the supply chain. Implementing CM enables the United States Air Force (USAF) to drive performance in the procurement process, achieve affordable installations, and provides USAF executive leadership the opportunity to transform the USAF by incentivizing organizations to exploit opportunities and overcome challenges.

Context

In 2013, the United States found itself with a massive national debt after almost twelve years of war, soaring healthcare costs, and a Social Security system that is unsustainable at its present rate. While government leaders sought to reduce the national debt, a failed negotiation amongst politicians to pay down the debt paved the way to sequestration and deep cuts to the Department of Defense (DoD) and the USAF. To reduce costs and maintain critical mission capabilities, the USAF slashed spending on installation maintenance and mission support functions. Today, extreme pressure still exists to improve performance in budget execution as additional cuts loom on the horizon. The Office of Management and Budget issued policy in December 2014, seeking to “transform the federal market place”¹¹ through the implementation of CM. Transitioning from the current Strategic Sourcing (SS) framework to CM is a paradigm shift. CM reverses the execution of thousands of decentralized individual transactions to a centrally managed portfolio comprised of common categories of supplies and services. Currently, the USAF focuses its Strategic Sourcing efforts on installation maintenance and mission support contracts. Logically, the USAF is discussing the option of transforming its SS organizations to CM organizations.¹²

Background

Following the end of the Cold War, the DoD looked to reduce cost through outsourcing. This highlighted the need to develop an effective workforce armed with clear policies and procedures to execute value-focused contracts with third-party providers. For the last 25 years, the DoD and USAF have ventured to transform their business processes from transactional to strategic and its people from clerks to certified professionals.¹³

Congress passed the Defense Authorization Act in 1990, which included the Defense Acquisition Workforce Improvement Act (DAWIA) and accomplished significant revisions to the DAWIA in 2003. The aim of the act is to establish a more professional workforce capable of making best value decisions for the DoD as expenditures through third party vendors for a myriad of goods and services increased. Specifically the act required a certification processes that validates members of the acquisition workforce reach and maintain professional status.¹⁴ Without the increase in workforce standards and a validation process to ensure standards were met and retained, the DoD would continue to be vulnerable to risk in the acquisition process and would not be able to instill confidence that taxpayer dollars were spent effectively.

Following the significant revisions in 2003, a government-wide SS initiative emerged in 2004 as officials understood the leverage the DoD should have in the market place but currently lacked. Thousands of individual transactions took place independent of each other and in many cases competed with each other driving prices.¹⁵ SS is a cross-functional collaborative effort to exploit economies of scale and leverage the buying power of the enterprise to compete, negotiate, and award large contracts serving multiple organizations and agencies with more advantageous terms and conditions to include pricing. SS contract vehicles not only helped to reduce prices, but also simplify procurement efforts and increase the speed and efficiency of transactions or orders placed under them. To make this a reality, the USAF took significant steps to develop its contracting force into SS professionals. It developed an enterprise SS group with subordinate SS squadrons organized by customers to deliver tailor made contracts. The USAF also developed SS training and education programs through the Defense Acquisition University (DAU) and the Naval Postgraduate School (NPS). DAU provided online computer-base training while at NPS, students enrolled in the Acquisition Procurement and Contract Management MBA

program could take additional classes and receive a specialty in SS. Those individuals would then move on to reserved billets with the SS group or squadrons where they would lead SS initiatives. SS was, in large part, an initiative lead by contracting professionals, and while it successfully drove down the unit price of goods and services consumed, there was still room for improvement in other aspects of the acquisition process within the DoD.

The Better Buying Power (BBP) initiative rolled out in 2010 in an effort to “strengthen the Defense Department's buying power, improve industry productivity, and provide an affordable, value-added military capability to the Warfighter.”¹⁶ Grounded in continuous process improvement, the principles provided by the BBP guidance span all elements and stakeholders in the acquisition process, including industry partners. The BBP program continually evolves to implement new and better techniques and approaches to improve the procurement process and drive results. Over the last five years, the DoD released BBP 2.0 and 3.0, improving guidance as lessons are learned and new best practices are identified.

In 2013, exploding national debt brought on sequestration and deep budget cuts across the board. In order to maintain its weapons systems and continue critical research and development (R&D) the USAF reduced personnel and slashed the budgets for installation operations and maintenance. In the past, the DoD utilized the Base Realignment and Closure (BRAC) program to reduce excess capacity at installations and consolidate functions around the world. This program proved effective but also controversial, as closing military bases within the United States also means fewer federal dollars streaming into communities and fewer jobs in some Congressional districts. Today, the DoD faces similar fiscal demands and another round of BRAC, coupled with retiring aging weapon systems like the A-10 Warthog, would significantly help achieve budget cuts mandated by Congress. However, there is little political will within

Congress to close bases through BRAC or retire existing aircraft, as it would mean fewer federal funds and jobs in their districts.¹⁷

If the DoD, specifically the USAF, is unable to close bases and retire weapons systems to align cost savings with budget cuts, then they must become more efficient at reducing the current operating costs. General Mark A. Welsh, Chief of Staff of the Air Force (CSAF), said the USAF must seek to reduce the cost of installations to free up allocated budget in order to procure needed weapon systems and reach required readiness levels.¹⁸ On May 5, 2015, under the Air Force Materiel Command (AFMC), the Air Force Installation and Mission Support Center (AFIMSC) stood-up to “effectively and efficiently deliver installation and mission support activities.”¹⁹ AFIMSC, headed by a two-star general, is comprised of six functional areas responsible for installation and mission support activities: civil engineering, financial management, morale and welfare services, security forces, and contracting. AFIMSC’s mission is to do exactly what the CSAF suggested is critical to ensuring that the USAF remains the predominant air force and is able to compete with near-peer rivals. AFIMSC brought multiple preexisting and largely autonomous field offices, agencies, and centers under one center, providing the unity of effort and centralized control necessary to implement enterprise-wide policies and practices to drive better value out of the strained installation and mission support budget.

In December 2014, the Office of Management and Budget (OMB) issued a policy aimed at driving government-wide agencies to transform their procurement practices. The policy mandates an expansion from SS, focused on driving down the prices of supplies and service, to CM, which demands cross-functional collaboration to go beyond SS by bringing down costs through standardized consumption limitations and service levels across the enterprise.²⁰ This

approach would allow government departments and agencies to strategically manage their cost and allocate funds more effectively. The USAF has yet to implement CM fully, but it is currently conducting a limited pilot study within the AFIMSC portfolio. Installation maintenance and mission support contracts represent the most attractive opportunities to realize benefit from the implementation of CM, as there is commonality in how funding is spent across the installation enterprise. Air Force Installation Contracting Agency (AFICA) is leading the effort to integrate CM into AFIMSC's business practices. AFICA is one of the six subordinate organizations to AFIMSC and is responsible for, amongst other things, all contracting support for Air Force installations worldwide. AFICA has recently received approval from Air Force Materiel Command (AFMC) to transform Commodity Councils into Category Councils. This effort is a promising start and will support efforts to meet the OMB mandate issued in December 2014 and will help reduce the operating costs of USAF installations around the world. However, the Contracting community does not possess the required authority to fully implement CM into the procurement process.

USAF should implement CM

The cost of running USAF installations is limiting the amount of funds better used to develop innovative technology and achieve readiness goals.²¹ CM brings management tactics, techniques and procedures (TTPs) that instill discipline to our operations and derive more value from the supply chain. Of course, with any dramatic shift in policy or practice there is bound to be significant resistance to change. This response is a known and well-understood fact about human behavior, so there is no surprise when innovators are met with resistance. Nonetheless, the USAF needs to implement CM. It has a proven track record of driving performance in numerous companies in outside industries, and when utilized to manage AFIMSC's contract

portfolio, it will drive down the costs of running USAF installations and ensure sustained affordability for the foreseeable future.

CM drives performance in the procurement process

CM drives performance in the procurement process and provides the ways and means to achieve the USAF's desired outcome of maximizing the value and affordability of its installation. Three equally critical segments comprise CM's foundation: a strategic approach to sourcing, strength in managing the market, and a robust change management program.²²

Increased performance is realized when an organization achieves proficiency in these foundational elements. The USAF is successful with strategic sourcing, but must bolster its purchasing practices through change management. Additionally, the USAF lacks convincing evidence of the ability to conduct strong market management. CM can fill many of the gaps in AFIMSC's procurement business processes. Utilized in concert, these three segments create a powerful program that generates significant cost savings. While CM's foundation provides sound principles CM also produces quantifiable savings in three meaningful areas: price reduction, cost avoidance and efficiency improvements.²³ These areas allow practitioners and leadership to identify gaps, initiate new efforts, and assess improvement in areas directly linked to installation operating costs.

Affordable installations through CM

The implementation and institutionalization of Category Management is the key to achieving affordable installations. Today many inefficiencies exist in how and what installations procure from third party vendors. Recent efforts have made some advancement in standardizing how installations operate, but there is still significant room for improvement through centralization and management from the perspective of categories of spending. Common

categories of spending extend across all USAF installations (motor pool, grounds maintenance, janitorial services, construction and engineering projects, etc.). CM provides a structured approach to managing the “whole mountain of spending”²⁴ by the functional end users. AFIMSC should implement category management for all USAF installations and generate standardization and cost savings across the enterprise. This eliminates isolated transactions through leveraged buying power and ensures equity in service and consumption levels.

As a positive side effect, greater regularity allows vendors to streamline their supply chains and provide a better product or service at lower cost. Vendors aspire to meet USAF needs by offering the goods and services we want to buy. Logically, the USAF demands a wide range of products and services in multiple variations, then vendors must establish large and complex supply chains to provide desirable solutions. As the size and complexity of the supply chain increases, it becomes more expensive and those costs pass on to the USAF. The reverse is also true. Commonality in our installation-related requirements allows vendors to have a more streamlined and less costly supply chain.²⁵ Overall, the more common we can make the goods and services demanded, the less they will cost.

Industry provides many examples of companies who have successfully implemented CM and realized significant cost savings. In his book, *Category Management in Purchasing: A Strategic Approach to Maximize Business Profitability*, O’Brien provides GlaxoSmithKline (GSK) as a great example of a company that is a top leader in the healthcare and pharmaceutical industry.²⁶ GSK was driven to implement CM based on the need to derive more value from its supply chain in order to appease shareholders and remain competitive in its industry. GSK had a sizable procurement operation with a “global spend of £8.5 billion and a supplier base where complacency and comfortable relationships had gained footholds.”²⁷ GSK took steps to reduce

cost by closing facilities and reducing the personnel, but the current vendor environment presented itself as an opportunity to make significant contributions to the effort. GSK implemented CM in 2001 and within two years the program delivered around £800 million in savings (10 percent). While real savings were realized, GSK's suppliers also took notice of GSK's CM program and began changing their behavior to remain competitive for GSK's business. To be successful GSK focuses on creating a CM process tailored to align with GSK's business environment, developing a CM capable workforce through self-development, training, mentoring and coaching, and a Strategic Communication Plan from executive leadership that focused not only employees, but also industry partners.²⁸ GSK continues to modify its CM program as well as develop its suppliers to adopted and implement CM principles into their own procurement processes.²⁹ This effort enhances costs savings for GSK as its suppliers become more efficient in their own operations. There is a lot to be learned from companies like GSK that have already paved the way and made CM "the way [they] buy."³⁰

CM is a paradigm shift

The implementation of Category Management requires a paradigm shift that now requires requirement owners, also known as cost owners, to lead the effort in reducing their operating costs. In recent history, USAF contracting organizations lead initiatives to improve procurement practices and processes aimed at leveraging buying power and reducing the price of goods and services supporting installations.³¹ These efforts garnered positive results in terms of reducing prices, but were able to do little with regard to cost reduction as requirement owners could acquire as much as their budgets would allow. This was in large part the result because contracting does not have the authority to set consumption limits or standardize product specification. Under CM, requiring activities must have cost ownership and be accountable to

achieve measurable results showing a reduction of operating cost. CM also requires a paradigm shift in our business operations because requirement owners and functional experts have not taken a leading role in managing total cost related to the procurement of their goods and services. However, if the USAF seeks to reduce operating costs and those efforts are lead by requirement owners, then these two elements will unlock value not previously accessible.

The true value of CM will be unlocked once functional cost owners take on the responsibility of reducing operating costs through market management, consumption control, and standardized specifications with categories of spend.³² There is little to no governance requiring cost owners to improve the performance of their budgets spent on third party vendor contracts. Cost owners must take the initiative to mature their processes and maximize the value of the supply chain. Cost owners in the functional areas have the knowledge and expertise in their fields to best differentiate between needs and wants of their stakeholders. Contracting organizations have proven the ability to consolidate multiple contracts into large ones, shortening the acquisition timeline and reducing prices, but contracting does not have the authority to control the overall spend of funding. Lieutenant Colonel Julio Negron, Commander of the 771st Enterprise Sourcing Squadron said, “if contracting is putting smarter enterprise programs to achieve savings and does not accompany those with the proper governance to control demand, the benefit of enterprise sourcing is lost.”³³ Functional leaders must seek to reduce overall costs as required by CM. The greatest outcome will result through increased discipline and reduced consumption.³⁴

Functional cost owners must take an enterprise approach to categorically managing their spend by fulfilling the role of Category Managers and leading category teams. CM can be an integral part of the procurement activity benefiting the organization’s bottom line. Category

Mangers lead category teams to derive value from the supply chain. Those category managers and the overall responsibility for CM program results must lie with the functional experts who also have total cost ownership. In a 2012 report, published by American Productivity and Quality Center (AQPC), FMC Technologies' global sourcing director said, "an ideal category manager is someone with a strong technical background combined with a strong commercial background. FMC looks for someone with experience in one or more of the following: operations, project management, commercial areas, or technical areas such as engineering."³⁵ Not only does the Category Manger need the expertise in a given area, but it is also important these individuals have the authority to make decisions that govern how categories of spend are managed and have ownership of total cost. To have true ownership of total cost, an individual must have authority to define the requirement "as well as the rules around how the requirement is consumed."³⁶ The USAF's governance structure nests total cost ownership within Headquarters USAF's Major Commands, then down to the Wing or Installation Commanders, and then to functional fields within the wing. At this point, USAF Contracting is leading the initiative because they see value in changing USAF spending behavior.³⁷ However, Contracting only owns price and not total cost. This will prove problematic in the future if cost owners do not assume the lead role in Category Management teams.

Opportunities and Challenges

Shifting a paradigm is challenging, but over the last few years multiple events within the USAF installation community have lent themselves as opportunities to the effort to mature USAF purchasing processes and practices. In fact, fiscal austerity, Strategic Sourcing and the recent formation of AFIMSC present opportunities to enable change. Repeatedly, austerity proved to be a critical element for innovation, creating a sense of urgency to garner political will

and rewarding the application of critical thought in problem solving.³⁸ While CM requires education and training sufficient to create a level of proficiency considered “professional,” the decade old Strategic Sourcing program in the USAF, continues to yield a cadre of professionals with experience in a critical element of CM, SS. Perhaps the most challenging roadblock is creating a governance structure capable of managing installation support from an enterprise perspective; however, the formation of AFIMSC provides that level of oversight. All three of these realities should be leveraged to enable to rapid employment of CM across the enterprise.

Fiscal austerity has a history of driving innovative change. To successfully drive innovation you must have two basic elements: constraints that require critical thinking and the political will for change. Fiscal austerity provides both elements. The military innovation that took place during the interwar period is a great case study for how fiscal austerity led military leaders to develop superior capabilities. Perhaps, Winston Churchill best described the reality of the era when he said, “now that we have run out of money, we have to think.” Nations no longer had the luxury of plentiful resources and were forced to find less costly innovative ways to accomplish their ends. One can look at the development of the aircraft carrier as the centerpiece of the naval battle fleet, or to the development of a strategic bomber that helped to defeat Japan and Germany as examples of innovation born from that age of fiscal austerity. Although not as devastating as during the Interwar Period, fiscal austerity is a reality again today. In the post-Cold War era, as budgets shrank, the USAF, much like the rest of the DoD, reduced personnel and organic capabilities to focus on core mission roles and responsibilities. As this occurred, the USAF’s procurement system became critical as the percentage of funding spent on goods and services to contractors grew. Today, 11 percent of the overall USAF budget goes to pay contractors for goods and services on its installations.³⁹ Shrinking budgets brought on by

exploding national debt and sequestration are forcing USAF leaders think critically about how to reduce the cost of operating their installations. In today's world, our business practices must be "better, faster, cheaper"⁴⁰ to keep up with our competitors just as they were when the U.S. developed of the aircraft carrier in the post-Washington Naval Treaty years that proved so vital to the defeat of the Japanese in WWII.⁴¹

Moreover, the political will of leadership to actively support and lead innovative changes to streamline their organizations is more easily obtained during fiscal austerity. This was evident when President Obama mandated a government-wide implementation of CM, through OMB, to reduce the total cost of all Executive Branch departments and agencies.⁴² OMB's policy dated December 2014 gives legitimacy to efforts to implement CM and helps garner active participation from senior leaders within the USAF. The current fiscal environment influenced the political will of the Obama Administration to support OMB's policy requiring the implementation of CM government-wide. The supportive political will provides leverage to obtain resources and incentives required to drive cultural change and implement CM. Supporters of CM must leverage this mandate to generate political will amongst USAF senior leaders and drive change within USAF organizations. The USAF is in an austere fiscal environment where it must do more with less funding. This increased demand, coupled with fiscal austerity, drives innovation.

SS efforts have built proficiencies in the contracting community since 2004 and provided some familiarity within cost-owning activities. USAF acquisition leaders continuously seek to implement industry best practices that improve purchasing behavior, and SS is one such initiative. The USAF implemented SS as a stand-alone effort to leverage its immense buying power and drive down prices for goods and services. However, when viewed through the CM

framework, SS is only part of the process, though it does play a major role in the Implementation and Improvement stages of CM's five-stage process. The Five Stages of CM include: Initiation, Insight, Innovation, Implementation, and Improvement. Once started, CM "efforts frequently stall"⁴³ in the Implementation Stage, of which SS plays a major role. Fortunately, proficiencies already developed in the USAF's SS organizations will be beneficial here to ensure success.

AFICA, mostly comprised of contracting professionals, leads SS for the USAF and as such currently brings most of the experience to the team. Garnering this experience means contracting professionals have a much shorter learning curve to become proficient in CM and require less investment to be fully capable. Some personnel working on SS initiatives are members of other functional fields representing the cost-owners. Like their contracting colleagues, these requiring activity personnel involved in installation support functions have been exposed to SS at some level, even if they only participated part-time. SS contracts provided many of the supplies and services procured by contracting personnel with the direct support of their requiring activity counterpart. While these individuals require significantly more training than their contracting colleagues to become proficient at becoming members of and also leading a CM team, their experience provides familiarity with common concepts, principles, and practices. Efforts within the USAF over the last twelve years to develop SS as a common business practice for installation support created some momentum supporting the implementation of CM.

Prior to the formation of AFIMSC, an organizational structure did not exist that would support the governance for CM to be successful. AFIMSC provides a hierarchy that brings all key stakeholders under one command, enabling an enterprise approach that unlocks the full potential of CM. AFIMSC simplifies the governance process and provides a familiar chain of authority to focus efforts and motivate organizations to drive results. Previously, the

organizations that now make up AFIMSC worked to support their own function and were not centrally controlled to support a common goal centered on the installation as a whole. Also, central budgetary oversight of operations is critical to the successful implementation and sustained execution of CM.⁴⁴ Central control is a critical part of the governance process. This allows central management of resources to ensure spending is allocated to the most needed areas within the enterprise and helps prevent wasteful spending in areas not essential. AFIMSC does not have total control of all installation funding presently, but this will occur over time, providing this vital success factor.

While there are opportunities to be leveraged, there are also challenges. AFIMSC senior leaders' resistance toward change, a lack of proficiency within the workforce, and absent incentives within requiring activities all pose significant challenges to the implementation of CM.

AFIMSC senior leader appetite for additional initiatives is reduced following recent organizational change that assembled the center. Furthermore, obtaining significant buy-in from the six subordinate organizations required to implement CM in the near term is a challenge.⁴⁵ Even though AFIMSC's creation provides an opportunity, recent feedback from AFIMSC senior leaders reveals a reluctance to lead new change now. This is to be an expected reality as AFIMSC is still maturing as a new

The Change Curve

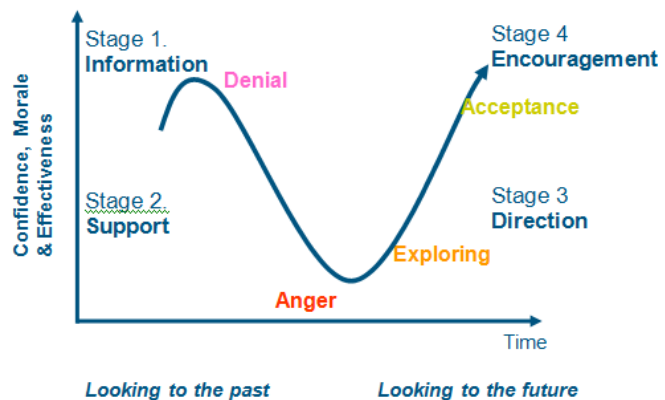


Figure 1. The Change Curve (*The Change Curve: How Do We React to Change?*)

organization made up of subordinate organizations not used to working under the same command structure. Significant change causes a normal drop in performance as seen in Figure 1. The Change Curve.⁴⁶ Additional changes during the initial stages of change management could be disruptive and slow an organization's ability to return to a desired level of performance. As with any new organization, it is more important for AFIMSC to become a well functioning organization before pursuing additional changes.

Another reality is that any controversial change, like CM, would likely fail to get the support required by key stakeholders during the Denial, Anger, and Exploring stages of the Change Curve. Along similar lines of thought, it is important to perfect a service before attempting to develop a new one, as highlighted in *Raving Fans* by Sheldon M. Bowles. Consistently providing good service is a prerequisite to creating additional change. Bowles provides two explanations why consistently good service is a prerequisite: "first, it allows you to be consistent. Second, you'll be much further ahead doing a bang-up job on one thing rather than introducing a whole string of customer service goals all at once...you'll never bring it off."⁴⁷ In this case, it is important for AFIMSC to perfect its internal business practices before seeking to make significant changes. Without doing so, it is likely AFIMSC would be unable to perform any function well enough to perform at a high level. Senior AFIMSC leaders must tackle this challenge head on and lead AFIMSC through the Change Curve as quickly as possible to shape an environment favorable to critical new change like CM.

CM is a comprehensive approach to managing procurement, and it requires significant education and training to become proficient. AFIMSC does not have a cadre of trained or certified Category Managers to lead team efforts. Much like Program Management, CM is a professional career field requiring education, training, and certification. Founded in 2004, the

Category Management Association (CMA) is responsible for the establishment of professional standards related to the field of Category Management. CMA also provides certifications for individuals with the required experience and specified training completed. CM is a relatively new career field in the procurement arena, as the USAF only first began discussing CM in December 2014. To build a competent and capable cadre of Category Managers requires extensive workforce development. Entry-level certification present in industry today is similar to many career fields under DAWIA. Certification under DAWIA is a lengthy process, and therefore it is reasonable to conclude a similar duration would be realized for certification in CM. Currently, organizations and positions are not directly evaluated based on reducing the cost of performing missions. The most significant incentive to execution of one's budget is to spend everything allotted and be prepared to ask for and spend more as comptrollers release "fall-out money." This is an indirect evaluation at best, as the gains are tallied by how many goods or services you were able to procure for your organization or installation. As a result, when funding shortfalls exist, USAF leaders reduce requirements rather than find innovative ways to sustain or enhance value with less funding. Reducing requirements to meet the demands of a shrinking budget provide a short term solution, but one that is not sustainable. One example of this exists with flying hours. In order to meet budget reduction brought on by sequestration, the USAF has reduced the amount of flying hours available. This limits aircrews' ability to meet readiness requirements and, if continued over an extended period, will significantly degrade our ability to compete with near-peer competitors.⁴⁸ Directly evaluating/incentivizing leaders on their ability to maintain acceptable quality and quantity standards while reducing costs would drive innovation as a direct result. Shifting to a system like CM, where leaders are evaluated on how

much they reduce operating costs by deriving more value from the supply chain rather than reducing requirements, would greatly improve performance, but it is also a significant challenge.

Recommendations

Inclusion of CM under DAWIA

DoD and USAF should petition the President of the United States to request that Congress expand the current DAWIA functional areas to include CM. It is difficult to obtain sufficient resources to train the workforce sufficiently without falling under the DAWIA umbrella. Inclusion of CM under DAWIA provides credence to the importance of developing this discipline within our workforce and standard procurement procedures. Also, inclusion of CM facilitates the creation of curriculum and a certification program within the DoD's Defense Acquisition University to provide training, education, and certification required to enable DoD to develop an effective CM capability.⁴⁹ Without the inclusion of CM into the DAWIA suite of professional career fields, it will prove difficult to recruit, train, and retain qualified personnel. DAU facilitates DAWIA certification training, and that training is costly. Inclusion of CM under DAWIA provides a structured curriculum and funding to pay for work force training.

Strategic Communication Campaign

As with any change, leadership must gain buy-in and support of those involved. Therefore, a Strategic Communication Campaign (SCC) from USAF senior leaders (CSAF or AFMC/CC) is vital. Because CM requires a significant refocusing of resources in both contracting and requiring activities at the operational level, senior executive support for the effort must be evident at all levels in between and across the enterprise.⁵⁰ The SCC demonstrates the overall commitment and focus of Senior Leadership, motivating all to be supportive of the activity. The SCC and its execution must match the magnitude of the task, while keeping the

message simple.⁵¹ O'Brien terms this type of communication as "broadcast."⁵² Without a "broadcast" communication plan, it is likely the initiation and institutionalization of CM will fail or be ineffective. Additionally, the SCC must include industry partners. Inclusion communicates expectations for vendors and helps answer any questions up front of what vendors should expect from the USAF. If leadership is not reaching the proper audience with the right message early and often, organizations and industry will revert to old ways of doing business and not embrace the required change. Broadcast communications, like leadership, is an art rather than a skill. The initial focus should be on introducing CM to the USAF and then following up with project specific communications to those audiences who will play a direct or indirect role contributing to the effort, to include industry partners.

Career broadening for contracting officers

The USAF should create career-broadening billets to allowing contracting professionals to fulfill category manager positions until proficiency is built into requiring activity workforce. Requiring activities must also be cost owners; however, those organizations do not have ready access to personnel familiar with concepts and activates of CM.⁵³ Career-broadening billets should be created to close the gap in the short term and speed the transition. Without utilizing contracting professionals, the lack of personnel familiar with some aspects of CM will likely slow USAF efforts to obtain the desired end state. It is critical to achieve positive results quickly to gain momentum in order to convince those who are resisting and, more importantly, to increase cost savings in the near term for future investment. The best manpower resource AFIMSC has in the near term is the active duty contracting officer corps. Assignment to CM billets requires limited training as many have experience with strategic sourcing.

Inclusion of CM in advanced academic programs

Requiring activities and contracting career fields should follow strategic sourcing education and training framework and develop graduate-level curriculum for CM, sending both contracting professionals and requiring activities professionals. In 2006, students enrolled in the Contracting MBS at NPS were afforded the opportunity to participate in new curriculum educating them about SS. This was a new addition to the MBA and earned the students a “specification,” making them eligible to fill special billets set up in new strategic sourcing organizations. The USAF should sponsor an additional program at NPS educating students on the principles and concepts of CM. There would be pre-established billets set up for graduates of this program. Much like with SS, the program would provide those organizations with officers and civilians who possess recent and relevant training in CM for both contracting and functional specialists.⁵⁴ Not doing so and relying solely on training would deprive the procurement community of professionals educated to use critical thinking skills vital to the development of strategic planning.

Vendor development through the SBA

The Small Business Administration (SBA) must develop a program to assist small businesses in maturing their sourcing strategies. Developing suppliers is a best practice of CM, to include developing suppliers to be more mature in their own procurement processes.⁵⁵ At some point, if suppliers are unable to mature and implement some or all principles of CM themselves, then they will not be able to improve the quality and reduce the cost of their products and services. Inversely, if the USAF can develop suppliers, especially small businesses, then they can derive additional value from the supply chain while also meeting socio-economic requirements levied by Congress. It would be inappropriate and certainly inefficient for procurement organizations or other entities within the USAF to take on this role. However, the SBA and their

Small Business Specialists in the field are tailor-made for this function. Much of what the SBA is charged with involves developing small businesses to do business with the government.

Improving supplier maturity in terms of category management is a worthwhile investment and will glean previously unattainable value from the supply chain.

Conclusion

In today's USAF there is significant pressure from Congress and the President to take on increased roles and responsibilities with reduced funding. Fiscal austerity drives leadership to develop innovative methods to do more with less. A significant cost for the USAF is the cost to operate its installations around the world. CM provides a framework to manage the associated costs from an enterprise perspective and enables the USAF to achieve affordable installations. However, it will take highly visible commitment on the part of senior leaders to create a paradigm shift in the USAF installation procurement process. Resistance to change, a lack of CM proficiency within the workforce, and absent incentives within cost-owner organizations all pose significant challenges to the implementation of CM. However, advocates can leverage existing opportunities such as increased political will for innovation and change brought on by fiscal austerity, the maturity of Strategic Sourcing organizations, and the recent formation of the AFIMSC to make the institutionalization of CM a reality. CM unlocks previously unattainable value from the supply chain, reducing total cost and delivering savings that can be invested by the USAF to advance technology and maintain its competitive edge with near-peer rivals. Exploiting the opportunities to overcome the barriers to change with a strategic communication plan; workforce development through education, training and certification; and deliberate supplier development will prove to be a worthwhile endeavor resulting in affordable installations in an age of austerity.

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