



Highlights of [GAO-03-661](#), a report to Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

BEST PRACTICES

Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings

Why GAO Did This Study

Department of Defense (DOD) spending on service contracts approaches \$100 billion annually, but DOD's management of services procurement is inefficient and ineffective and the dollars are not always well spent. Recent legislation requires DOD to improve procurement practices to achieve savings.

Many private companies changed management practices based on analyzing spending patterns and coordinating procurement in order to achieve major savings. This report evaluates five companies' best practices and their conduct and use of "spend analysis" and the extent that DOD can pursue similar practices.

What GAO Recommends

To achieve savings, DOD should adopt the spend analysis best practices of leading companies. DOD's approach should provide for an agencywide view of service contract spending and promote collaboration to leverage buying power across multiple organizations. DOD should also submit a plan and a schedule to Congress for timely changes in management structure and service-contracting business processes.

DOD concurred with the recommendation to adopt spend analysis best practices but not with submitting a plan for management and business process changes.

www.gao.gov/cgi-bin/getrpt?GAO-03-661.

To view the full report, including the scope and methodology, click on the link above. For more information, contact David Cooper (202) 512-4125, CooperD@gao.gov.

What GAO Found

The leading commercial companies GAO studied reported achieving and expecting to achieve billions of dollars in savings by developing companywide spend analysis programs and service-contracting strategies. Spend analysis answers basic questions about how much is being spent for what services, who are the suppliers, and where are the opportunities for leveraged buying to save money and improve performance. To obtain these answers, companies extract internal financial data, supplement this data with external data, organize the data into categories of services and suppliers, and have the data analyzed by managers or cross-functional teams to plan and schedule what services will be bought on a company wide basis. The results of spend analysis are also used for broader strategic purposes—to develop reports for top management, to track financial and other benefits achieved by the company, and to further improve and centralize corporate procurement processes.

DOD is in the early stages of a spend analysis pilot. Although DOD is moving in the right direction, it has not yet adopted best practices to the same extent as the companies we studied. Whether DOD can adopt these practices depends on its ability to make long-term changes necessary to implement a more strategic approach to contracting. DOD also cites a number of challenges, such as its large and complex need for a range of services, the fragmentation of spending data across multiple information systems, and contracting goals for small businesses that may constrain its ability to consolidate smaller requirements into larger contracts. Challenges such as these are difficult and deep-rooted, but companies also faced them. For DOD to change management practices for the contracting of services will require sustained executive leadership at DOD as well as the involvement and support of Congress.

Companies' Reported 2001 Procurement Spending and Savings

Company	2001 procurement spend	Procurement cost savings
IBM	\$42.4 billion	Focuses on delivering competitive advantage year after year; reported saving hundreds of millions of dollars since 1994.
ChevronTexaco	\$16 billion-\$18 billion	Targeted savings of \$300 million a year by 2003. After 2005, targeted savings of \$1.3 billion a year.
Bausch & Lomb	\$900 million	Saved a reported \$20 million a year from 1998 to 2001; reduced suppliers from 20,000 to 13,500.
Delta Air Lines	\$7 billion (approximate)	Reported saving over \$200 million in procurement costs since 2000.
Dell	\$26 billion	Set goal to save 20% from its general procurement budget of \$3 billion to \$4 billion.

Source: GAO analysis.