DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
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MEMORANDUM FOR CHIEF OF NAVAL OPERATIONS
COMMANDANT OF THE MARINE CORPS

Subj: STRATEGIC SOURCING PROGRAM GUIDANCE

Historically the Department has sought to conduct its operations in the most cost effective manner and provide the greatest value to the taxpayer. These efforts were the result of a combination of internal and external directives often implemented in a segmented fashion. As the Department's leaders, our management imperative is to structure an integrated, coherent transformation approach that considers current political realities and historical efforts that may have applicability.

At present we are engaged in several significant transactions that have far-reaching impact on our business operations. The stand up of the Sea Enterprise initiative, the formation of the Commander, Navy Installations (CNI), the President's Management Agenda as articulated in Management Initiative Decision (MID) 907, and the continued implementation of the Navy Marine Corps Intranet (NMCI) provide opportunities to transform not only the way we conduct our business but also the process for implementing these initiatives.

The President's Management Agenda requires the Department of Defense to incorporate and complete Competitive Sourcing studies in their business operations. The Office of Management and Budget (OMB) forwarded competitive sourcing goals to the Office of the Secretary of Defense (OSD). MID 907 tasked the Department with an allocation of at least 48,000 positions for competition to be identified in the Fiscal Year 2005 (FY05) submission to OSD. An essential component supporting the FY05 submission is a Competition Plan.

This Plan is due 45 days prior to the FY05 budget submission for my review and approval. The Plan will be based on the allocation of the MID 907 target with a total of 45,000 positions for the Navy and 3,000 positions for the Marine Corps. The Competition Plan should concentrate on the functions that were determined to be "available in the market" during the Core Competency Working Group. Attachment (1) provides the guiding

principles that are to be incorporated in the Competition Plan and Strategic Sourcing Program.

The Strategic Sourcing process provides a framework and process for success. The Department must strive to internalize competition as the normal business routine for those aspects of our processes that are commercial in nature. I am establishing the Strategic Sourcing Program Directorate within the Office of Deputy Assistant of the Navy, (Infrastructure Analysis), (DASN (IA)) and appointing Mr. Frank Sowa to coordinate and oversee the implementation of this critical effort.

Hansford T Johnson

Hansford T. Johnson
Secretary of the Navy
Acting

Attachment:
1. Strategic Sourcing Program Guiding Principles

STRATEGIC SOURCING PROGRAM GUIDING PRINCIPLES

The Competition Plan shall be based on the following guiding principles:

- Competition or divesting of functions that are not critical to the conduct of our core processes will shape our business operations and define our human capital requirements. The Core Competency Working Group established a decision tree for classifying functions based on relationships to our business processes. This effort provides the foundation to assess the level of control needed for a particular function. Functions are to be aggressively evaluated and a determination rendered on whether they are a core competency and, if not, what is the appropriate sourcing action.

- Proper alignment of functions and people provide the focus to establish objectives for recruiting, training and retaining the skills necessary to support the core competency of the Navy and Marine Corps. Inherent in this alignment is the proper mix of military personnel to the skills and work objectives. Specifically, it is critical to establish the right proportion of military positions to civilian or contractor positions in the infrastructure. We should not incur the significant overhead costs of military positions unless required for military essentiality or sea shore rotation.

- The Department is engaged in initiatives for which the Office of Management and Budget (OMB) is amenable to giving credit toward achieving its competition objectives, provided these efforts are made visible and can be reviewed. Positions affected by utilities and housing privatization, conversion of military billets to civilian or contract and future divestiture efforts may be counted toward the Department's target. A system for accounting and tracking these efforts must be established. This tracking system is to be integrated with the Commercial Activities Management Information System (CAMIS) resulting in a single authoritative information data source.

- Functionality Assessments (FA's) and Business Process Re-engineering (BPR) efforts provide a valuable tool to scope efficiencies in functions and to separate inherently governmental elements from commercial functions. Integral to the successful implementation of these efforts is the conduct of an A-76 on those functions that are commercial in nature. To date the FA and BPR efforts have not fully yielded results due in part to the lack of a follow on competition for commercial efforts. Therefore, claimants will conduct A-76 studies on a minimum of 20 - 30% of billets studied using FA and BPR efforts. Furthermore, these efforts must be recorded in the Functionality Assessment Management Information System in order to develop a comprehensive assessment of the Department's initiatives.

- Sharing and implementing best business practices is paramount to the success of the Strategic Sourcing Program. Our focus must be on eliminating inefficiency in the process and facilitating the execution of timely studies, analyses and procurements. To that end, Centers of Excellence will be designated to provide central knowledge repositories. A significant first step will be to establish a limited number of contracting offices that specialize in conducting Strategic Sourcing, and in particular A-76, procurements. Additional centers are to address, at a minimum, developing standard service levels and performance based statement of work templates.

- A key factor in obtaining the benefits of competition is leveraging the market place advantages inherent in a broader grouping of functions whether it is at the Department, Navy or Marine Corps level. Future competitions are to be packaged to maximize the opportunity for private sector participation by broadening the scope of the business units being competed while still preserving small business opportunities.