



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

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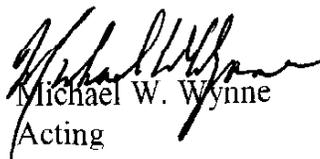
MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS

SUBJECT: Performance Based Logistics (PBL) Business Case Analysis (BCA)

PBL is the Department's near-term strategy to increase weapon system readiness through integrated logistics chains and public/private partnerships. Application of PBL to new and legacy systems, where economically feasible, was directed by the Quadrennial Defense Review. The Defense Business Practice Implementation Board (DBB) review of our PBL efforts recommended the development of consistent BCA guidelines for assessing economic feasibility of PBL.

A team met on November 7, 2003, to develop the attached guiding principles for PBL BCAs. These guiding principles are structured to support "best value" assessment of product support strategies, consistent with existing PBL guidance. Military Departments are directed to revise their PBL BCA guidance to incorporate the attached.

The attached guiding principles will be incorporated into a revised DoD PBL BCA Handbook within 180 days. My focal point for PBL BCAs is Mr. Jerry Beck, OADUSD (LP&P), (703) 614-4859, e-mail: Jerry.Beck@osd.mil.

  
Michael W. Wynne  
Acting

Attachment  
As stated

cc:  
CDR, USAMC  
CDR, AFMC  
CDR, NAVAIR  
CDR, NAVSEA  
CDR, NAVSUP  
CDR, MARCORSYSCOM  
DIR, DLA  
JCS/J4



## ***Product Support Strategy (PSS) Business Case Analysis (BCA) Guiding Principles***

1. All PSS BCAs will be based on warfighter-stated performance requirement(s), documented in *Performance Based Agreements (PBAs)*.
2. PSS BCAs will be conducted to assess changes from existing product support strategies for legacy systems and to support the product support strategy for new weapon systems. Over time, BCAs will need to be updated or repeated to validate the approach taken and to support future plans.
3. PSS BCAs will evaluate all services or activities needed to meet warfighter performance requirements using “best value” assessments. Best value is the expected outcome that, in the Department’s consideration, provides the greatest overall benefit in response to requirements. The assessments will include cost per output, performance measures, capitalization/asset ownership, size of footprint, reliability growth, life cycle costs, Diminishing Manufacturing Sources (DMS) management, obsolescence/obsolescence mitigation plan, technology insertion, and risk management. The value added in terms of benefits and outcomes of all services and activities will be identified.
4. Initial PSS strategies for ACAT1 programs will be developed prior to Milestone B, including definition of the metrics that will be used to define a program’s ability to meet future logistics and operational performance requirements. These strategies shall provide the foundation for detailed Business Case Analyses to be completed prior to Milestone C and/or contract award that are based on the detailed design. BCA estimates shall be accomplished at significant subsystem/repairable item levels that provide the information necessary to initiate cost-effective maintenance and repair actions.
5. PSS BCAs will continue through life cycle process with oversight to ensure reassessment at appropriate trigger points, including life cycle costs (LCC) updates; Reduced-Total Ownership Costs activities; and/or continuous improvements actions. The Military Services will evaluate PSS performance at appropriate decision points.
6. The cost and performance baselines for legacy systems will be determined by historic experience and costs. The cost baseline will include all appropriate government and/or contractor costs, including indirect costs, overhead, and handling fees. Consideration shall be given to the cost, performance, and risk aspects of all 10 elements of Integrated Logistics Support (ILS). For new system BCAs, detailed Milestone C baselines shall be established considering reliability and maintainability projections at the major system repairable level. These individual estimates shall be sufficiently detailed to provide the basis for contractual actions leading to implementable support strategy actions. Although these estimates shall sum up to the validated Service cost position Cost Analysis Improvement Group (CAIG) risk concerns must be considered within the overall process.

7. PSS BCAs will reflect operational requirements and existing DoD guidance for contractors on the battlefield, 10 U.S.C., Section 2464 (the necessity for the Department to maintain core logistics capabilities), 10 U.S.C., Section 2466 (the limit on contracting for depot level maintenance), ability to synchronize with the Defense Transportation System, and flexibility to support contingencies, and surges. The BCA will specifically consider the full range of minimum and maximum essential logistics capabilities (peacetime to full mobilization requirement), existing infrastructure and common consumables support.
8. PSS BCAs will include risk assessment of expected performance, supply chain responsiveness, and surge capabilities. Consideration of performance and cost risk will explicitly consider contract versus organic risk management, financial accountability, and recovery actions. The risk assessment should address the probability of and confidence level of the following events occurring: poor performance, cost growth, extended labor disputes, and change over in product support integrator/provider (PSI/PSP).
9. For all PSS contracts, warfighter requirement(s) will be linked to metrics and metrics to contract incentives. For all organic PSS product support integrators (PSIs), warfighter requirement(s) will be linked to metrics and metrics to PBAs between the Program Manager and the organic PSIs.
10. PSS BCAs will be developed using information provided by all appropriate product support stakeholders, including government and industry providers. In order to maintain a competitive environment, industry participation will be determined in accordance with the Federal Acquisition Regulation (FAR).
11. PSS BCAs will be conducted using analytic tools approved by the Services.