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NAVAL AIR SYSTEMS COMMAND  
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From: Commander, Naval Air Systems Command

Subj: PERFORMANCE BASED LOGISTICS (PBL) GUIDANCE AND BEST PRACTICES

Ref: (a) ASN (RD&A) memo, Performance Based Logistics (PBL) Guidance Document of 27 Jan 03 (NOTAL)  
(b) NAVAIR 4081.2A, Policy Guidance for Performance Based Logistics Candidates of 1 Dec 04  
(c) SECNAV 5000.2C, Implementation And Operation Of The Defense Acquisition System And The Joint Capabilities Integration And Development System of 19 Nov 04  
(d) ASN RD&A ILA Handbook of Sep 06  
(e) USD AT&L memo, Policy Guidance Regarding the Provision by DLA of Materiel to PBL contractors of 29 Mar 05

Encl: (1) Performance Based Agreement  
(2) Virtual Program Office  
(3) Integrated PBL Strategy

1. The success of Performance Based Logistics (PBL) has allowed the Naval Aviation Enterprise (NAE) to improve support to the Warfighter and achieve weapon system readiness at lower life cycle costs. This document sets forth PBL best practices that have been used and proven and should be employed as much as practical for weapon systems under the Naval Air Systems Command (NAVAIR) Program Manager AIR (PMA) direction and control (including joint programs).

2. PBL is the Department of Defense (DOD) and Department of the Navy (DON) preferred method of providing weapon system product support. Reference (a) promulgates guidance for implementation of PBL within the DON. Reference (b) defines the critical steps required to implement PBL on new start and fielded systems and equipment.

3. Over the past decade, the DON has awarded over 160 PBL contracts. The Commander, Naval Air Systems Command has reviewed many of the lessons learned and best practices and

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requires program managers to incorporate these improvements into new, renewed and modified PBLs. Ref (c) requires that the product support strategy be assessed, developed and integrated concurrent with capability starting at Initial Operational Capability to ensure sustainment operations support at the specified levels of performance and affordability. Long-term product support shall be in-place at system Full Operational Capability to maximize readiness and minimize life-cycle cost. Use of these PBL best practices will be assessed through the Independent Logistics Assessment Process as provided in Ref (d).

4. In order to ensure that program managers use best practices, the following is provided for establishing weapon system PBLs:

**a. Sustainment Funding:** The NWCF covers the supply chain portion of a PBL strategy. Though NWCF facilitates long-term contracts, contractor investment, etc, it is limited in that it does not fund other Integrated Logistics Support (ILS) elements. For PBLs covering multiple ILS elements, such as full weapon system or engine PBLs, O&M is normally the primary source of funding for maintenance and repair efforts, however multiple appropriations may be required based on the efforts being performed (e.g. APN for modification, etc.). PMs should pursue commitments from the appropriate resource sponsors to request resources in the proper appropriation based on the efforts being performed.

**b. Contract Type:** A properly structured PBL incentivizes system reliability and accelerating supply chain velocity by transferring sustainment risk to the support provider. This risk transfer is best accomplished through the use of a firm fixed price (FFP) contract and a performance based Statement of Work (SOW). However, the risk of entering into FFP contracts prior to establishing firm cost, resource, and material baselines may necessitate the use of Cost Plus contracting approaches early in the product support life, with a plan to transition to FFP when sufficient data is available. PBL SOWs will not prescribe "how to" but will synchronize all integrated logistics elements requiring specified performance outcomes.

**c. Justification and Approval (J&A):** For in-production weapon systems, program managers should consider developing their PBL support strategy via a Government - Industry teaming arrangement with the OEM(s). The OEM can influence design for

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reliability, maintainability and supportability and can leverage off the production line for concurrent procurements, redesigns and upgrades, and obsolescence/DMSMS mitigation. Non-OEM PBL support providers may not have the technical data, configuration mechanisms, nor interim logistics support processes to provide the best value PBL solution. Program managers should ensure the J&A has the flexibility to allow for growth and resolution of sustainment challenges through the most optimal combination of additional spares, training, redesign, support equipment, maintenance planning, etc.

**d. Performance Based Agreement (PBA):** The PBA is a Memorandum of Agreement (MOA) between the program manager and Commander Naval Air Forces. The PBA documents what the Warfighter requirements in terms of performance and what the Warfighter is willing to resource for that specified level of performance. The PBA identifies ultimate system level Warfighter requirements (Operational Availability (Ao), Ready For Tasking, Fully Mission Capable, etc.), however the NAE has determined that the single overarching Fleet driven metric for Naval Aviation is RFT aircraft. Marine Corps programs will coordinate the PBA with HQMC and CNAF. Program managers should consider utilizing the PBA example in enclosure (1) as the basis for developing the PBA.

**e. Virtual Program Office (VPO):** Program managers are responsible for Total Life Cycle Systems Management (TLCSM) to maintain system long-term readiness, increase reliability, and reduce the logistics footprint. As the foundation for the sustainment portion of TLCSM, the award and execution of PBL contracts require the teaming of multiple organizations and functions. The program manager is the leader of this team and is singularly responsible for ensuring that their weapon system meets the performance requirements detailed in the PBA. The VPO is a tool to manage sustainment and ensure all organizations and functions are focused on the needs of the Warfighter vice the needs of their parent organizations. Program managers should conduct periodic Program Management Reviews (PMRs) and Executive Steering Committee (ESC) meetings dedicated to sustainment. Program managers should consider utilizing a VPO similar to that in enclosure (2).

**f. Integrated PBL Strategy:** A single PBL contract with the prime contractor for tip-to-tail support, while desirable from a

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management aspect, may not be the most cost effective solution. An integrated PBL approach that utilizes the readiness improvements and cost savings generated by the existing component and sub-system PBLs is often more affordable. If a full coverage system level PBL is to be pursued, considerations include analysis of prime contractor management "pass through" fees, flow down PBL contracts to subs, and overall value provided by the prime. A single all-inclusive PBL contract is difficult to attain even though it may be conceptually ideal, hence program managers should consider utilizing the integrated PBL approach in enclosure (3).

**g. Business Case Analysis (BCA):** Effective BCAs provide decision makers with the best available cost, technical and performance information to justify and articulate a chosen sustainment strategy for the life cycle of a system and/or subsystems. BCAs will be using a team approach, with cognizant government IPT members providing competency expertise to determine appropriate technical and programmatic factors for comparison, as well as areas of uncertainty or risk. A successful BCA will recognize and identify key enablers and appropriate uncertainty bounds of technical, schedule and/or cost input. A successful BCA will also summarize relevant sustainment/performance benefits when marginal cost comparisons are inappropriate. Implementation of a product support alternative requires the ability to track performance results throughout the program or system life cycle. Performance and cost metrics will be presented and reviewed at periodic PMRs. Programs will update their BCA as required, e.g. significant technical or programmatic changes, addition of equipment, and prior to any follow-on contract or program milestones. Program Managers shall use updated BCAs to ensure any approved sustainment strategy continues to provide the best value alternative to support the war fighter. As with the initial BCA, updated performance and cost data from commercial sources will be verified by cognizant government personnel. Program Managers shall ensure AIR-4.2 reviews and approves all PBL Life Cycle BCAs.

**h. Cost and Software Data Reports (CSDRs)/Cost and Maintenance Data Reporting:** Accumulation of actual cost and performance metrics has long been recognized as essential in developing credible cost estimates for subsequent contracts, analogous efforts, and for POM submission. The intent of cost

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reporting and detailed maintenance supply reporting is to ensure that the sustainment strategy continues to remain the best value alternative to support Warfighter requirements. The data may also be used when available and appropriate to estimate future and similar program costs, to prepare life cycle cost estimates for major system milestone reviews, to develop independent Government contract cost estimates in support of cost and price analyses, and in development of estimates to support long-range programming, planning, and budgeting analyses. For those acquisitions purchased on a fixed price basis, the fixed prices may be utilized along with certified cost and pricing data, and contract performance data to complete cost analyses and other analogous efforts.

**i. DLA:** PMs should consider including DLA as a partner on the PBL contract. DLA will provide funding and will be held to the same contract terms, conditions and performance metrics as Navy items. If DLA is not a partner, the PBL contract should include FAR Part 51 in accordance with ref (e), which authorizes, but does not mandate, the PBL provider to use DLA as a source of supply.

**j. Transparent to the Warfighter:** PBL needs to be transparent to the customer. The Warfighter should not be impacted by any transitions from one product support strategy to another.

5. This PBL policy document will continue to be updated and revised as new PBL best practices are developed. The NAVAIR point of contact on PBL policy matters is Jeff Heron at 301-757-9182.



W. B. MASSENBURG  
Vice Admiral, U.S. Navy  
Commander

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COMNAVAIRSYSCOM (AIR-2.0, 2.0A, 4.2, 6.0, 6.0A, 6.0B, 6.6, 6.9, 6.9.3)

# Performance Based Agreement

**[insert weapon system] PERFORMANCE BASED AGREEMENT**  
**BETWEEN PMA [name], COMMANDERS [insert appropriate titles] WING ATLANTIC AND PACIFIC,**  
**AND COMMANDER NAVAL AIR FORCES**

This Performance Based Agreement (PBA) establishes Ready-for-Tasking and Cost-Wise Readiness performance objectives for the [INSERT WEAPON SYSTEM].

\_\_\_\_\_  
X. X. XXXXXXXX  
Captain, U. S. Navy  
Commander [insert appropriate title] Wing, Atlantic

\_\_\_\_\_  
Date

\_\_\_\_\_  
X. X. XXXXXXXX  
Captain, U. S. Navy  
Commander [insert appropriate title] Wing, Pacific

\_\_\_\_\_  
Date

\_\_\_\_\_  
X. X. XXXXXXXX  
Captain, U. S. Navy  
[insert weapon system] Program Manager

\_\_\_\_\_  
Date

\_\_\_\_\_  
X.X. XXXXXXXX  
Vice Admiral, U. S. Navy  
Commander, Naval Air Forces

\_\_\_\_\_  
Date

**1. Purpose.** On 27 January 2003, the Assistant Secretary of the Navy for Research, Development, and Acquisition issued the Performance Based Logistics (PBL) Guidance Document. This Guidance Document requires Program Managers (PMs) to utilize a Performance Based Agreement (PBA) to document what the warfighter needs in terms of performance and relevant support requirements, as well as what the warfighter is willing to resource for that specified level of performance.

This [insert weapon system] PBA establishes Ready-for-Tasking (RFT) and Cost-Wise Readiness performance objectives as agreed to by Commander, Naval Air Forces (CNAF), the [insert weapon system] Program Manager (PMA xxx), and Commanders [insert appropriate titles] Wing Atlantic and Pacific. These performance objectives are the centerpiece of the overall [insert weapon system] PBL support strategy and document required performance for all PBL contracts that support [insert weapon system] aircraft.

**2. Scope.** The agreement covers all contracts and memorandum of agreements that contribute to the readiness, availability, and reliability of all [insert weapon system] type, model, and series. This agreement applies to all post delivery sustainment services such as material support, obsolescence management, integrated logistics support, technical publications, aircraft introduction, systems engineering, site activation, support equipment, depot overhaul planning, and software support.

**3. Warfighter Performance Metrics.** CNAF and PMA xxx shall utilize RFT to measure [insert weapon system] readiness. PMA-xxx shall support the Fleet in meeting the CNAF RFT Entitlement. CNAF Instruction 3500.1 series designates RFT as Naval Aviation's cost wise readiness metric.

**4. Warfighter Resources (funding, manpower, facilities).** CNAF and PMA-xxx shall identify, document, and articulate the required resources to the appropriate Fleet, Naval Air Systems Command, and Naval Supply Systems Command comptrollers and resource sponsors. The inability to fund PBL contracts at the agreed to level could result in costly equitable adjustments and/or contract termination

PMA-xxx and the Naval Inventory Control Point (NAVICP) shall capture and analyze dollars-per-flight-hour cost trends. This analysis will allow PMA-xxx and NAVICP to focus on cost-wise readiness initiatives thereby building a baseline for future contract awards. The dollars-per-flight-hour analysis may lead to alternative approaches for charging the Flight Hour Program and reimbursing the Navy Working Capital Fund.

**5. Roles and Responsibilities.** The roles and responsibilities of the participants are as follows:

- a. CNAF will provide a member to participate in assessing specific PBL contract performance objectives for the purpose of optimizing OEM award incentives.
- b. PMA-xxx will develop and execute an [insert weapon system] Integrated Sustainment Strategy that optimizes support to all [insert weapon system] type, model, and series with the support of the Naval Inventory Control Point.
- c. CNAF and PMA-xxx will assess the performance objectives in the PBA and monitor, analyze, and develop appropriate metrics that incentivize the supply chain to focus on mission accomplishment and cost-wise readiness.

**6. Constraints and Boundary Conditions.** The terms and conditions of this agreement:

- a. May be affected by external factors such as DoN Planning, Programming, and Budgeting decisions, programmatic issues, and other unpredictable changes that will require this PBA to be readdressed.
- b. Are limited to operations within the normal operating cycle (training for deployment, pre-deployment, deployment, stand down, routine maintenance period, etc.).
- c. Do not apply to equipment subjected to failure such as battle damage during wartime operations or acts of terrorism. Unusual damage that results in multiple catastrophic casualties and system deterioration are outside of the scope of the logistics support performance objectives.

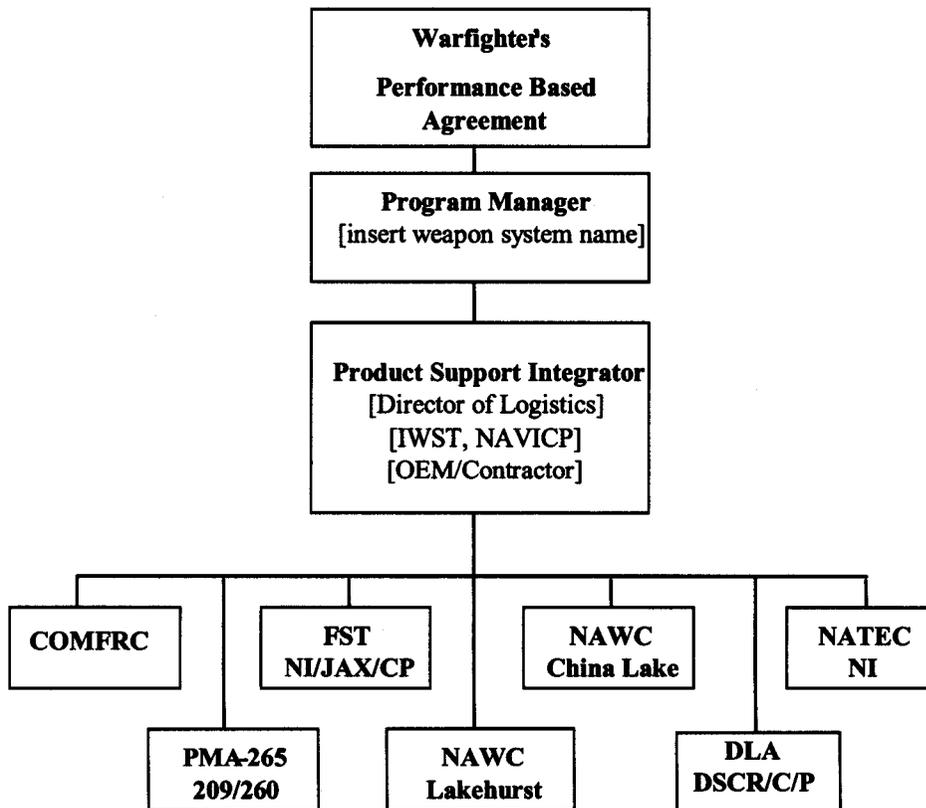
**7. Period of Performance.** This agreement reflects the dynamic relationship between the warfighter, government and industry throughout the weapon system life cycle as the system evolves and requirements change during this period. This agreement will be reviewed and updated annually or as deemed appropriate by the signatories or their designees.

**8. Implementation.** Upon signature of this PBA, PMA xxx will incorporate these performance objectives into the [insert weapon system] Integrated Sustainment Strategy. PMA xxx and CNAF will meet semi-annually to review compliance with performance objectives, review efficacy of the PBA and make recommendations to improve, revise, maintain or extend the PBA.

## Virtual Program Office

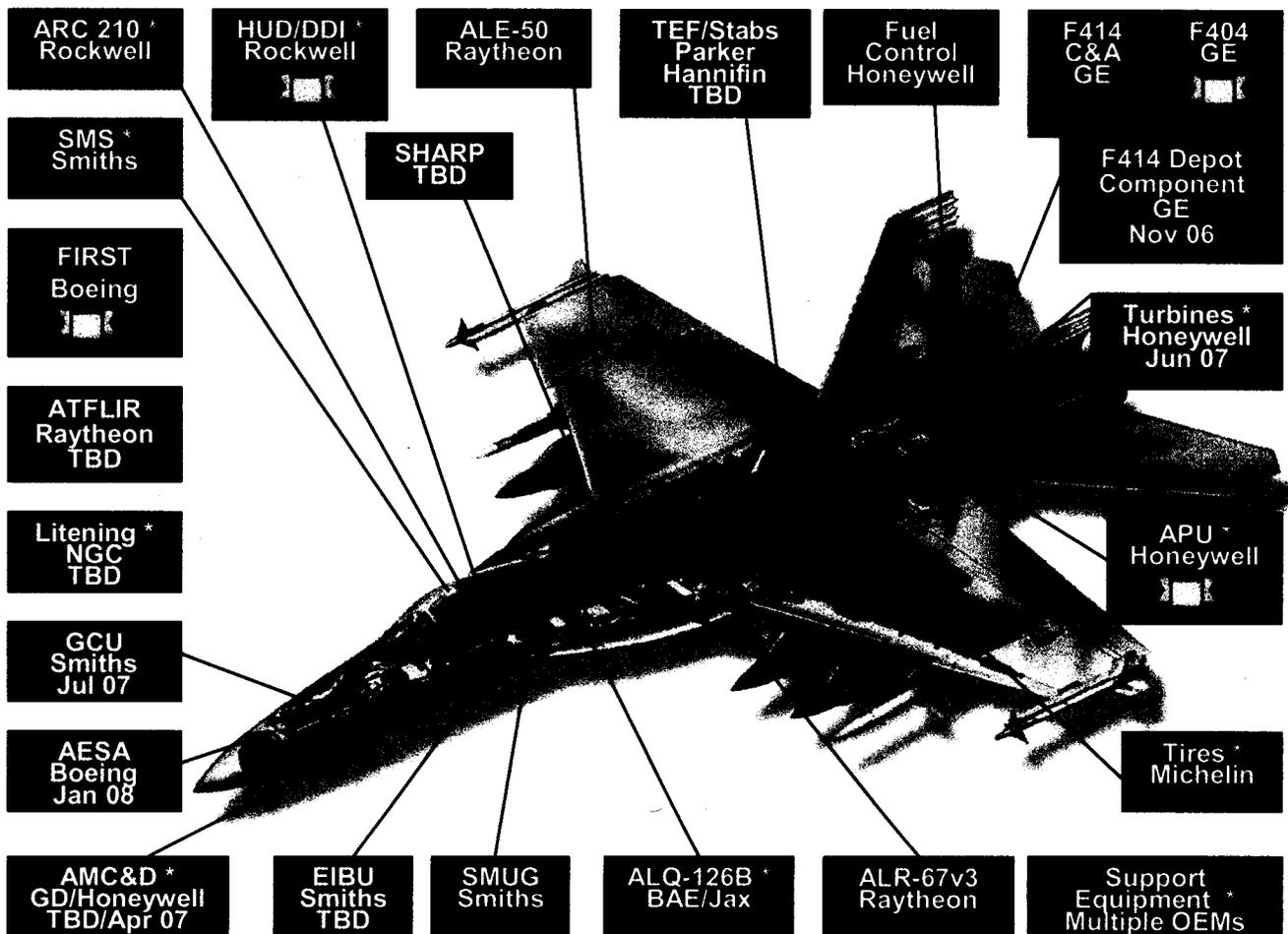
### Roles and responsibilities:

1. **Warfighter:** Clearly articulates their performance expectations and assists with the development of the Performance Based Agreement.
2. **Program Manager:** Singularly accountable for meeting the warfighters performance expectations.
3. **Product Support Integrators:**
  - i. **Director of Logistics:** Implements the Program Managers vision engaging any and all organizations and functions as necessary. Coordinates support to maximize readiness at the lowest cost.
  - ii. **NAVICP Integrated Weapon System Team Lead:** Executing the Program Manager's sustainment vision and objectives.
  - iii. **OEM/Contractor:** Executing the Program Manager's vision and objectives.

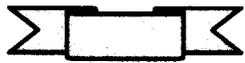


## Integrated PBL Strategy and Success

NAVICP Component PBLs	Pre-PBL Supply Availability	Post PBL Supply Availability	Cost Savings and Avoidances
SMS	65	100	\$15.0M
Tires	81	98	\$6.6M
ARC-210 Radio	70	90	N/A
APU	70	98	\$70.0M
FIRST	N/A	85	TBD
Cockpit Display	60	100	\$71.0M
ALR-67(v)3	67	100	N/A
SMUG	70	98	\$5.0M
F404	43	99	\$90.0M
ALQ-126B	50	100	\$2.1M
F414 C&A	N/A	97	\$6.4M



Awarded PBLs  
 Pending PBL

  
**PBL Award  
Winners**

\* Supports Multiple Aircraft