

CHALLENGES TO IMPLEMENTING ORGANIC PERFORMANCE-BASED LOGISTICS STRATEGIES

REPORT DAC90T2

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DECEMBER 2009

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Challenges to Implementing Organic Performance-Based Logistics Strategies

The Department of Defense's Product Support Assessment Team (PSAT) identified substantial opportunities for improved product support inherent in the adoption of performance-based logistics (PBL) by the DoD organic logistics community. While there are challenges to establishing PBL structures, the PSAT recognized the benefits provided by the organic logistics community's involvement with PBL efforts—increased availability and decreased costs—warrant the effort.

LMI was tasked to determine the types of actions employed in highly successful PBL arrangements that achieve performance expectations and the common management mechanisms used by commercial firms to oversee and execute PBL efforts. The insights we gained helped us identify and recommend changes that need to be made within DoD to successfully plan for and manage the execution of organic PBL strategies.

This project was conducted in two phases. In the first phase, we conducted structured interviews with government and contractor personnel in organizations performing the functions of product support manager (PSM) or product support integrator (PSI) for the programs selected. We synthesized the information obtained from these interviews and documented our assessment.¹

The second phase commenced with a 2-day workshop attended by representatives from the acquisition and logistics communities of the Office of the Secretary of Defense (OSD), the military services, the Defense Logistics Agency (DLA), and defense-related industry associations. During the first day of the workshop, presentations were given on the next generation of PBL strategy, the findings of phase one of this task, organic PBL arrangements by each of the services, and DLA's role in organic PBL implementation.

The second day of the workshop was devoted to a roundtable discussion of the various impediments to increased participation in PBL efforts by organic activities. The following research question was adopted to focus the discussion:

What are the challenges to expanding the role of DoD's organic sustainment infrastructure in the planning for, and delivery of, integrated, affordable, outcome-focused product support?

¹ LMI, *Assessment of Successful Performance-Based Logistics Efforts*, Report DAC90T1, Bradley W. Bergmann II and Robert L. Buckley, September 2009.

The workshop focused on the four “core” product sustainment capabilities typically resident within the DoD logistics community: supply support, maintenance and repair, transportation and distribution, and sustaining engineering. A listing of the salient functions included within each of these capabilities is provided in Appendix A.

CHALLENGES

This section discusses the various challenges or impediments to expanding the role of DoD’s organic sustainment infrastructure in the planning for, and delivery of, integrated, affordable, and outcome-focused product support; that is, performance-based logistics. The issues raised in this section reflect the synthesis of the information gleaned from the workshop, LMI’s interviews during phase one, and past research and analysis.

We grouped the challenges into thematic topics for presentation; they are not listed in priority order. Although the specific actions we recommend follow each topic discussed, there is one overarching recommendation that is applicable to all topics.

Overarching recommended action: To institutionalize any actions taken, Defense Acquisition University (DAU) training materials and the content of the DAU’s web-based Acquisition Community Connection need to be updated to reflect those actions.

Fundamental Voids

Two types of PBL efforts may increase involvement by organic activities:

- ◆ *Government-integrated PBL effort.* A DoD component materiel-related organizational entity is the PSI. Activities within DoD’s organic sustainment logistics infrastructure are the product support provider (PSP) for those functions within their capabilities. Private sector firms are the PSP for other functions in which the firm is uniquely qualified or a recognized center of expertise.
- ◆ *Contractor-integrated PBL effort.* A private sector firm is the PSI. Activities within DoD’s organic sustainment logistics infrastructure “partner” with the PSI to be the PSP for functions within their capabilities.

Several functional voids within these two PBL types (both in published processes and in corporate knowledge) effectively preclude any meaningful participation by organic organizations in either type of PBL effort.

OPPORTUNITY ENVIRONMENT IS MISSING

Due to authority, policy, and process voids, the opportunity for organic entities to participate in PBL efforts is extremely limited, and in many cases, nonexistent.

Government-Integrated PBL Efforts

There are no obvious processes, nor readily apparent incentives, for a program manager or PSM to consider an organic source when selecting a PSI.

For many years, the *Defense Acquisition Guidebook* (DAG)² has stated that candidates for the role of PSI include (1) a DoD component organization or component command, (2) a system's original equipment manufacturer (OEM) or prime contractor, or (3) a private sector, third-party logistics integrator. No discussion about the evaluation and selection criteria that should be considered is provided.

Program managers and PSMs are charged with an extensive array of responsibilities. Without some incentive to consider alternative candidates for the PSI role, the path of least resistance is to select the OEM. But acquisition procedural guidance published by the military services does not encourage the consideration of both private sector and government sources for the role of PSI.

There are no obvious processes for an organic organization to position itself so it may be considered as a viable candidate for PSI.

Must an organization be authorized by higher headquarters prior to competing for a PSI role? Can more than one organic entity compete for a particular PSI role? Does the PSI candidate initiate contact with the program office, or does it wait until the program office solicits candidates? How does an organic entity finance the effort required to assemble a team, line up potential PSPs, and put together a proposal? What happens to the people on the PSI proposal team if the organic entity is not selected?

Military service guidance addressing these and related issues is lacking.

Recommended actions:

- ◆ The Office of the Under Secretary of Defense for Acquisition, Technology and Logistics, or OUSD(AT&L), should expand the content of Chapter 5 of the DAG to include a discussion of critical considerations (evaluation, selection criteria, timing, etc.) when selecting PSIs.
- ◆ The military services should publish guidance outlining circumstances and procedures for considering both private sector and government sources for the role of PSI.

² *Defense Acquisition Guidebook*, published on the behalf of the OUSD(AT&L) by the DAU at <https://acc.dau.mil/dag>.

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- ◆ The military services should publish guidance that outlines the responsibilities and procedures for positioning organic entities so they may be considered for the role of PSI.

Contractor-Integrated PBL Efforts

There is no obvious authority for organic activities (except depot maintenance activities and DLA) to serve as PSPs on contractor-integrated PBL efforts.

Much of the DoD's organic sustainment logistics infrastructure involves activities financed through the Defense Working Capital Fund (DWCF). Section 2208 of Title 10, United States Code (USC), is the governing authority for the DWCF. Paragraph (h) states:

The Secretary of Defense shall prescribe regulations governing the operation of [working capital fund] activities...The regulations may, if the needs of the Department of Defense require it *and it is otherwise authorized by law*, authorize...services to be rendered or work performed for, persons outside the Department of Defense...Working-capital funds shall be reimbursed for...services so rendered, or work so performed by charges to applicable appropriations or payments received in cash.

Regulations applicable to depot maintenance activities (DMAs) are contained in DoDI 4151.21,³ which authorizes DMAs to provide manufacturing, repair, and technical services to defense contractors. The foundation authority for this instruction is 10 USC 2474.

OSD has published interim policy governing the provision of services by DLA to weapon system contractors.⁴ This policy implements the provisions of Section 365 of Public Law 107-314.⁵ Two of the provisions of Section 365 significantly diminish the opportunity for DLA to participate in contractor-integrated PBL efforts.

- ◆ The authority is limited to distribution, disposal, and cataloging services. DLA is not authorized to provide supply support services, such as demand forecasting or materiel management.
- ◆ The weapon system contract for which DLA would provide logistics support and services must have been competitively awarded. As noted during the workshop, very few, if any, PBL contracts have been competitively awarded.

³ DoD Instruction 4151.21, *Public-Private Partnerships for Depot-Level Maintenance*, April 25, 2007.

⁴ USD(AT&L) memorandum, *Delegation of Authority for Defense Logistics Agency (DLA) to Provide Logistics Support and Services to Weapon System Contractors*, November 18, 2005.

⁵ Public Law 107-314, *National Defense Authorization Act for Fiscal Year 2003*, December 2, 2002. This statutory authority expires at the end of FY2010.

OSD has not published guidance to address the provision by the military services of supply support, transportation and distribution, or sustaining engineering services to defense contractors. Presumably this is because no explicit statutory authority exists.

The DoD Weapon Systems Acquisition Reform Product Support Assessment report⁶ finesses this conundrum by asserting, “Even if specific statutory authority is not provided for a given situation, government has the inherent authority to conduct its business in a reasonable manner.” Nevertheless, installation and command-level legal counsel typically will not approve any activity for which explicit regulatory authorization cannot be found.

There are no processes for an organic organization to position itself to be considered as a potential PSP (except depot maintenance activities and DLA) on contractor-integrated PBL efforts.

Regardless of how the preceding issue is resolved, military service guidance is needed to address issues analogous to those posed about PSIs. Some of the issues to be addressed in support of an organic organization as a potential PSP are the need for the higher-level authorization, the determination of whether more than one organic entity can compete for a particular PSP role, and determination of whether an organic PSP candidate can initiate contact with a PSI or whether it must wait until the PSI solicits candidates.

Except for depot-level maintenance, there are no obvious processes, nor readily apparent incentives, for a contractor PSI to consider organic sources when selecting PSPs.

Who is responsible for including incentives in PBL solicitations and contracts for the PSI to consider organic sources for PSP roles? How does a PSI find out which DoD organizations possess applicable product support capabilities? Must the PSI consider only sources from the procuring military service?

Military service guidance addressing these and related issues is lacking.

Recommended actions:

- ◆ OUSD(AT&L), in conjunction with DoD General Counsel, should ascertain if additional statutory authority governing the provision of product support services to defense contractors is required. If so, OUSD(AT&L), in conjunction with DoD General Counsel, should prepare and submit a legislative proposal authorizing the Secretary of Defense to issue regulations governing the provision of any product support service to defense contractors.

⁶ *DoD Weapon System Acquisition Reform Product Support Assessment*, OUSD(AT&L), November 2009.

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- ◆ If and when required statutory authority has been issued, OUSD(AT&L) should publish DoD guidance establishing overarching policy, procedures, and responsibilities that govern the provision of product support services to defense contractors.
 - ◆ The military services should publish guidance delineating circumstances and procedures for authorizing, proposing, and providing specific product support services to defense contractors.
 - ◆ The military services should publish guidance prescribing the responsibilities and mechanisms for incentivizing and enabling contractor PSIs to consider organic sources when selecting PSPs.

ORGANIC PSI CAPABILITY IS UNKNOWN

Planning for, and delivery of, integrated, affordable, outcome-focused product support requires an enterprise approach to managing the sustainment strategy. An enterprise perspective implies the PSI has the following fundamental attributes:

- ◆ A track record of experience with the technology to be supported
- ◆ Expertise and experience planning for the provision of the various product support functions
- ◆ A demonstrable capability for integrating the support provided by the PSPs.

The specific technical capabilities required of a PSI vary with the technologies employed and the product to be supported. They are also highly dependant on which integrated logistics support planning elements are to be included in the PBL effort. In addition, the requisite information management capabilities can differ by acquisition phase.

An OEM has an inherent advantage; it only has to put forth a PSI capability for the particular system or subsystem that it is developing or producing. The government, on the other hand, must decide for which products (or product groups) it wishes to have a PSI capability. Such decisions imply a process capable of answering the following:

- ◆ For which products [or product groups] would a government-integrated PBL strategy be a “best value” approach?
- ◆ What specific technical and management capabilities must a PSI possess?
- ◆ Are there organizations (or combinations of organizational entities) that possess these capabilities?

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- ◆ Do these organizations possess the fundamental attributes for an enterprise perspective?
 - ◆ If the answer to either of the preceding is no (or uncertain), should the government create an organization having the requisite capabilities and attributes?

Determining what products (or product groups) the DoD should have an organic PSI capability for is highly dependant on the unique features of each military service's organizations and inventory of weapon systems and equipment. Therefore, establishing a process for doing this would be a logical component of the previously recommended military service guidance delineating responsibilities and procedures for positioning organic entities for the role of PSI.

Once a determination about desired organic PSI organizational entities and their respective capabilities has been made, workforce assessment and planning can take place. The following are among the questions that would need to be answered:

- ◆ What occupational mix and skill sets are needed to yield these capabilities?
- ◆ What training is needed to provide government acquisition and logistics personnel with these skills?
- ◆ Is the number of potentially available government employees in each occupation and skill set adequate?
- ◆ If not, how do you decide when to train government employees and when to "buy" a skill via a support contractor?

Workforce assessment and planning are intrinsic elements of the DoD civilian human capital strategic planning process. The military services are responsible for carrying out the specific actions called for by this process.

Recommended actions:

- ◆ The military services should establish processes for determining what PSI capabilities should be resident within their sustainment infrastructure. Each military service should then conduct workforce assessments and planning necessary to attain and maintain the desired PSI capabilities.
- ◆ OUSD(AT&L) should revise the life-cycle logistics workforce aspects of DoD's *Logistics Human Capital Strategy*⁷ to specifically address the competencies and proficiencies associated with providing PSI capabilities.

⁷ *DoD Logistics Human Capital Strategy*, ODUSD(L&MR), May 2008.

Missing Enablers

PRODUCT SUSTAINMENT RESPONSIBILITY AND RESOURCE MANAGEMENT AUTHORITY

The program manager (PM) is responsible for providing product sustainment for the entire life cycle of the program. Assisting the PM with the management of product sustainment is the product support manager (PSM). As defined by Section 805 of the National Defense Authorization Act (NDAA) for FY2010, the PSM for a major weapon system has the following responsibilities:

- ◆ Develop and implement a comprehensive product support strategy for the weapon system.
- ◆ Conduct appropriate cost analyses to validate the product support strategy, including cost-benefit analyses as outlined in Office of Management and Budget Circular A-94.
- ◆ Ensure desired product support outcomes are achieved through development and implementation of appropriate product support arrangements.
- ◆ Adjust performance requirements and resource allocations across PSIs and product support providers (PSPs) as necessary to optimize implementation of the product support strategy.
- ◆ Periodically review product support arrangements between the PSIs and PSPs to ensure the arrangements are consistent with the overall product support strategy.
- ◆ Before each change in the product support strategy or every 5 years, whichever occurs first, revalidate any business case analysis performed in support of the product support strategy.⁸

Most programs have various types of financial resources (e.g., operations and maintenance, procurement, and research, development and test and evaluation) allocated to funding product sustainment, and often the funds are further divided into several program elements. Except on a limited basis, funds of one type or one program element cannot be transferred to another fund type or program element.

Due to the lack of funding flexibility noted above, a PSM will have a difficult (if not impossible) challenge adjusting resource allocations across PSIs and PSPs to optimize product support implementation. To fulfill the law, DoD financial rules for programmatic funding need to be updated to allow the movement of product support funding as necessary to optimize product support requirements.

⁸ National Defense Authorization Act, Section 805, *Life-cycle management and product support*, FY2010.

Recommended actions:

- ◆ OUSD(AT&L) and the military services should review current financial rules and update those rules to provide PMs and PSMs enough funding flexibility to move funds between accounts and optimize product support requirements in accordance with Section 805 of the FY2010 NDAA.
- ◆ OUSD(AT&L) and the military services should determine and document whether the above requirement for a PSM is applicable to Acquisition Category (ACAT) III and below programs.

TANGIBLE INCENTIVES FOR ORGANIC ACTIVITIES

Contractor incentives (in the form of contract incentive fees or award fees) that encourage exceptional performance are a common contracting practice. Even with firm, fixed-price contracts, contractors can provide employees with performance incentives from profit margins. In addition, contractors can take incentives or profits and make strategic investments in the near-term to improve product performance and further increase future profit margins.

Organic activities as public, not-for-profit organizations are not able to earn incentives. As part of a performance-based effort (i.e. PBL), however, organic activities should be able to earn organizational and workforce incentives just like the commercial organizations that are part of the same performance-based effort. The incentives organic activities earn would not be put toward profit (like commercial organizations); rather they would be put toward organizational improvements and group incentive bonuses. Earned incentives for organizational improvements could be used for a new or refurbished command cafeteria, recreation facility, or other employee spaces that are not funded with the annual activity budget.

Organic activity incentives could also be used for strategic product investment. Like the strategic investments made by contractors, a PSM (or organic PSI) must be able to make timely strategic investments to improve product performance. Under the current budget process, government strategic investments have to be planned as part of the program's annual budget submission, and it is another 2 or 3 years before the funding is made available for that investment. If the government investment could be made sooner, similar to the timeliness of contractor investments, then improved product performance and the proposed savings could be realized sooner.

Recommended actions:

- ◆ OUSD(AT&L) should review the DoD rules regarding government employee bonuses and the use of group incentives. Changes should be made so that group performance-based incentives can be utilized for performance-based efforts.
- ◆ OUSD(AT&L) and the military services should review the financial rules to determine what changes need to be made so programs can utilize performance-based incentives for making strategic product investments.

Eliminating Disincentives

Organic enterprises need to operate on a “level playing field” with commercial organizations so they can be equally considered to provide product support. The following disincentives for the selection of organic activities need to be changed.

BUSINESS RULE INFLEXIBILITIES

For organic activities to be as flexible and “in demand” as contractors, several process rules need to be changed.

Financial Carryover Restrictions

Carryover refers to “the dollar value of work that has been ordered and funded (obligated) by customers but not yet completed by working capital fund activities (Depot Maintenance, Industrial Operations and Research & Development Activity Groups) at the end of the fiscal year.”⁹ Carryover includes any unfinished portion of work accepted but not completed. The ability to carry over funds from one fiscal year to the next ensures a financial capability that can determine whether an organization is awarded additional workload.

Some working capital fund (WCF) activities have noted that DoD customers do not provide end-of-year funding (and the accompanying workload) to WCF activities because those activities cannot carry over the funding into the next fiscal year, leaving the task unfunded and the work undone. To avoid this constraint, the DoD customer selects a contractor source that is allowed to carry over the funding (as long as the funding was accepted before the end of the original fiscal year) and uses the funding to accomplish the task. There is a perception that WCF activities do not have the same financial flexibility as contractors, which would be a disincentive for DoD customers in considering WCF activities for end-of-year work.

A review of the funding situation indicates the issue may not be that WCF activities lack financial flexibility. Instead, it may be an issue of how the goods or services are procured from the WCF activity. Typically, work or services are procured by DoD components from WCF activities by either project orders or *Economy Act* orders. Project orders are authorized under Title 41, USC, Section 23, and must be well enough defined to be “specific, definite, and certain orders.”¹⁰ *Economy Act* orders are authorized under Title 31, USC, Sections 1535 and 1536 and “provide authority for federal agencies to order goods and services from other federal agencies (including other military departments and defense agencies)...”¹¹ Although there may be exceptions to when carryover is allowed, in general, project orders are allowed to carry over funding and *Economy Act* orders are not.

⁹ DOD 7000.14-R, Volume 2B, *Defense Working Capital Funds Activity Group Analysis*, September 2009.

¹⁰ DOD 7000.14-R, Volume 11A, *Project Orders*, 2, November 2002.

¹¹ DOD 7000.14-R, Volume 11A, *Economy Act Orders*, February 2003.

Recommended actions:

- ◆ OUSD(AT&L) and the military services should provide guidance about the use of project order authority instead of *Economy Act* order authority when procuring WCF services in support of PBL efforts to provide additional financial flexibility.

Contracting Rules

To support a PBL arrangement, a PSI coordinates PSP support with organic and commercial organizations. Typically, organic activities can make timely agreements with other organic activities and commercial organizations can make timely agreements with other commercial organizations. However, the linking of organic activities with commercial organizations is not as timely.

When an organic PSI needs to arrange support with an organic activity, a memorandum of agreement (MOA) or memorandum of understanding (MOU) is negotiated in a timely manner. When an organic PSI needs to arrange support from a commercial organization, the contract negotiated often takes a year or more to finalize. The delay in finalizing the commercial contract is either due to the time needed to set up contractual competition to meet the *Competition in Contracting Act* requirements or to provide the documentation for a justification and approval (J&A) in a sole source procurement process.

When a contractor PSI needs to arrange support for organic services, supplies, or facilities, a commercial support agreement (CSA) is negotiated based on the appropriate statute (e.g., 10 USC 2208(j), 10 USC 2474, or 10 USC 2563), but the contracting process takes 6 to 12 months. When a contractor PSI needs to arrange commercial product support, a contract is negotiated between the PSI and the commercial support provider in far less time.

The additional time needed for an organic PSI to contract with commercial PSPs is a disincentive for programs when selecting organic PSIs. Similarly, organic PSPs are at a disadvantage with contractor PSIs because of the additional time needed to negotiate the CSA compared to a commercial contract with a commercial PSP. To level the playing field, organic PSIs need to have a streamlined contracting process so they can provide timely product support in a PBL arrangement. Likewise, the CSA process needs to be streamlined so organic PSPs can negotiate quicker with contractor PSIs in support of performance-based efforts.

The rules should be the same whether industry is partnering with the government or the government is partnering with industry.

Recommended actions:

- ◆ OUSD(AT&L) and the military services should review contracting procedures and recommend changes to the Defense Federal Acquisition Regulation Supplement (DFARS) to streamline and accelerate the sole source (i.e., J&A) contracting process and the competition contracting process.
- ◆ OUSD(AT&L) and the military services should review the CSA procedures and recommend changes to the DFARS to streamline and accelerate the process for contractor PSIs to negotiate with organic activities for performance-based product support.

DIRECT-FUNDED ACTIVITIES

Although the lion's share of the DoD's organic sustainment logistics infrastructure comprises WCF-funded activities, there are direct-funded organizations that could be candidates for PSP roles within contractor-integrated PBL efforts. During the workshop that was conducted as a part of this effort, it was pointed out that many stakeholders are not aware that direct-funded activities can be reimbursed for the services they render. This lack of awareness could be a disincentive for direct-funded activities to be considered as candidates for PSP roles in a contractor-integrated PBL effort.

Those involved in the workshop concluded that guidelines are needed to govern direct-funded activities accepting funds for services they provide to a private-sector PSI. Volume 11A of the *DoD Financial Management Regulation (FMR)*¹² provides guidance about the costing of reimbursements for authorized services rendered by direct-funded activities to private sector parties.

Determining which direct-funded organizations are authorized to provide product support services to defense contractors is a military service prerogative. Such determinations would be a logical component of the previously recommended military service guidance delineating circumstances and procedures for authorizing, proposing, and providing specific product support services to defense contractors.

On the other hand, there is a substantial down side to authorizing direct-funded activities to participate in contractor-integrated PBL efforts. The FMR indicates that collections may be returned to the appropriation that financed the organization which provides the services only when specifically authorized by law. This does not cover many potential organic PSP players because the specific legal authority has not been given. However, Navy shipyards, which are direct-funded, are not affected because 10 USC 2474(d) requires the crediting of receipts for work performed as part of a public-private partnership to the appropriation that finances the organization that performs the work.

¹² DoD 7000.14-R, Volume 11A, *Reimbursable Operations, Policy and Procedures*, April 2008.

Recommended actions:

- ◆ Each military service should determine
 - which direct-funded organizations might be viable candidates for a PSP role in a contractor-integrated PBL effort, and whether
 - authorizing these organizations to perform such a role is consistent with the military service's resource application priorities;
 - transforming these organizations into WCF-funded entities would be impractical or inappropriate; and
 - direct sales, rather than work share, would be the preferable mechanism for financing the PSP work.
- ◆ If a military service determines it wants to authorize direct-funded activities to provide product support services in contractor-integrated PBL efforts via direct sales, then OUSD(AT&L) should structure the previously recommended legislative proposal to authorize direct crediting of receipts for work performed by direct-funded activities.

TECHNICAL DATA AVAILABILITY

Technical data is any system information (excluding computer software) that is used in system design, development, testing, production, and product support. The use of technical data in product sustainment is instrumental in system maintenance and repair, engineering changes and redesign, as well as the re-competing for system production and product support. The degree or level of detail for technical data the government obtains from the OEM determines how much support can be provided by organic or other commercial activities. The level of technical data a program obtains from the OEM is based on receiving military service's policy, the amount of funding available to procure the data, and the data needs (which include data rights and data updates) of the program.

For the past decade, few DoD programs procured the most detailed level of technical data for system production, and some programs procured the technical data only for system maintenance and repair. The recently published DoDI 5000.02, in the section about "Data Management and Technical Data Rights," provides the guidance necessary for ACAT I and II program managers to assess the appropriate level of technical data they need for a system product support by ensuring

- ◆ the data management strategy is integrated with other life-cycle sustainment planning, including the acquisition strategy;

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- ◆ the assessment looks at all instrumental areas for technical data; and
 - ◆ a priced contract option is addressed for future delivery of technical data and rights to technical data if it is not initially procured.¹³

Still to be determined are the effect on legacy programs that were past Milestone C before the instruction was published, and how does this instruction affect ACAT III programs and below for technical data matters?

Without the availability of technical data, organic activities cannot provide proper technical product support. To level the playing field so that organic activities can be considered for selection as the performance-based PSI, programs need to ensure the appropriate level of technical data is obtained. Otherwise, organic activities—both PSI and PSP—will be at a disadvantage when compared to the OEM.

Recommended actions:

- ◆ OUSD(AT&L) should ensure DoDI 5000.02 provides guidance for ACAT I and II program managers, who assess the technical data needs for organic PSIs and PSPs in support of performance-based efforts.
- ◆ OUSD(AT&L) should document how DoDI 5000.02 affects legacy systems that were beyond Milestone C as of December 2008.
- ◆ OUSD(AT&L) and the military services should document how DoDI 5000.02 affects ACAT III and below programs given that the “Data Management and Technical Data Rights” section only mentions ACAT I and II.

Improving Outcome-Focused Effectiveness

Several issues that did not get addressed during the workshop adversely affect the ability of organic activities to deliver integrated, affordable, and outcome-focused product support. These issues do not preclude the creation of government-integrated PBL efforts; but they may constrain the effectiveness of such arrangements.

CREATING INTEGRATED, OUTCOME-FOCUSED ORGANIZATIONAL RELATIONSHIPS

Becoming “outcome-focused” requires a reorientation of business practices. Contractor-integrated PBL efforts are successful largely because the various PSPs work as a team. For example, providers of sustaining engineering respond rapidly to requests from materiel managers. Similarly, the providers of supply support ensure all required components and parts are available when they are needed by the maintenance artisans.

¹³ DODI 5000.02, *Operation of the Defense Acquisition System*, December 8, 2008

The integrated teamwork required by an outcome-focused approach requires some retooling of the business rules (work effort prioritization criteria, resource allocation criteria, etc.) employed by organic supply chain management, maintenance and repair, and sustaining engineering activities. In many cases, it will also require changes to the information technology systems that manage these processes.

Effective delivery of integrated product support cannot be managed using the distinct metrics currently employed separately to evaluate the performance of supply, maintenance, and engineering organizations. Product-oriented sustainment support efforts will require new managerial effectiveness metrics that are linked to outcome attainment.

Today's organic sustainment infrastructure is often characterized as a collection of functional "stovepipes;" it provides supply support, maintenance and repair, and sustaining engineering through separate organizations. Product-centric sustainment support, which is the essence of the PBL approach, requires cross-functional integration of capabilities. What's the best approach for attaining this orientation? Must DoD replace the traditional functional stovepipes with system-specific stove piped organizations? Or can the military services employ the concept of virtual organizations via the use of electronically-connected integrated product teams?

The answers to many of these questions may lay in the common attributes that can be applied across the military services. Others will be highly dependant on the unique features of each military service's organizations and procedures.

Recommended actions:

- ◆ OUSD(AT&L) should sponsor periodic forums that provide an information exchange in which the military services can share "lessons learned" and "best practices" for creating the integrated, outcome-focused organizational relationships necessary for maximizing the effectiveness of government-integrated PBL efforts.

RESOLVING PSI RESOURCE CONTROL ISSUES

One of the key attributes of the PBL approach is the PSI has the flexibility to adjust the application of a known, fixed amount of funding needed to optimize the product support provided. Obligational authority for the DWCF is apportioned only down to the activity level. This presents a resource management problem for any government PSI that is within an activity financed by the DWCF. Under current DWCF operating philosophy, the PSI would not have a "known, fixed amount" of funding.

The Naval Inventory Control Point (NAVICP) avoids this problem with their contractor-integrated PBL efforts by annually "sequestering" the obligational authority for each PBL contract. A payment to the PSI is recorded quarterly or monthly,

depending on the terms of the contract. The PSI uses these payments to buy goods and services from government and private sector PSPs.

Could the NAVICP's approach be made to work when the PSI is a government entity? Could some of the DWCF apportioned to a particular activity be "partitioned" into individual funding pools for each product being supported using a PBL strategy?

The FMR establishes different revenue recognition policies for depot maintenance activities, supply management activities, and engineering services.¹⁴ Differing resource management business rules tend to complicate decision making, and could frustrate a PSI's ability to apply funds in an agile manner. How might the DWCF revenue recognition policies be revised to enable the PSI to buy integrated product support services from organic PSPs?

Recommended actions:

- ◆ OUSD(AT&L), in conjunction with DoD Comptroller, should convene a workshop involving representatives from the military services' logistics and comptrollership communities to brainstorm options for providing PSI's with
 - full, yet flexible, control of funding; and
 - the ability to purchase product support services from supply support, maintenance and repair, and sustaining engineering activities using a common set of pricing and revenue recognition guidelines.
- ◆ The military services, in conjunction with DoD Comptroller, should implement (at least on a prototype test basis) at least one of the options developed.

SUMMARY

This report recommends actions for creating an "opportunity environment" and eliminating specific disincentives in order to foster increased involvement of organic activities in contractor-integrated PBL efforts. The impediments to expanded adoption, and effective execution, of government-integrated PBL strategies involve many more challenges. The actions recommended include: creating an opportunity environment, establishing processes for developing requisite PSI capabilities, providing currently missing enablers, eliminating several disincentives, and creating an appropriate business environment within DoD.

¹⁴ DoD 7000.14-R, Volume 11B, *Reimbursable Operations, Policy and Procedures: Working Capital Funds*, November 2009.

In addition to the actions recommended in this report, the following factors are essential for government-integrated PBL efforts to be successful:

- ◆ Commitment of departmental headquarters, flag-level leaders for both acquisition management and logistics communities, and the warfighter to pursuing government-integrated PBL efforts.
- ◆ Buy-in by all stakeholders for applying the PBL approach to specific products (or product groupings).
- ◆ Willingness of the providers of supply support, maintenance and repair, transportation and distribution, and sustaining engineering to:
 - work as a team to deliver integrated product support services and
 - embrace an outcome-based culture.

To institutionalize any actions taken, Defense Acquisition University (DAU) training materials and the content of the DAU's web-based Acquisition Community Connection need to be updated to reflect those actions.

APPENDIX A. CORE CAPABILITIES AND SALIENT FUNCTIONS

During the 2-day workshop, representatives from the defense acquisition and logistics communities focused on four “core” product sustainment capabilities typically resident within the DoD logistics community. Table A-1 presents these capabilities and the salient functions within each capability.

Table A-1. Core Product Sustainment Capabilities

Product sustainment capabilities	Salient included functions
Supply Support	Demand forecasting Vendor selection and performance oversight Materiel management of <ul style="list-style-type: none"> ◆ support and test equipment, ◆ major sub-assemblies and reparable components, and ◆ repair parts Cataloging
Maintenance and Repair	Requirements forecasting Workload scheduling and management Repair, overhaul, and remanufacturing of <ul style="list-style-type: none"> ◆ weapon systems, ◆ support & test equipment, and ◆ major sub-assemblies and reparable components Modification installation Preventative maintenance Software maintenance Field technical services
Transportation and Distribution	Stock positioning Storage facility operations Kit assembly and packaging Transportation mode selection Transportation provider selection and performance oversight
Sustaining Engineering	Technical data management Configuration management Obsolescence management Technology refreshment Failure reporting and analysis Reliability growth Software engineering Field technical assistance

APPENDIX B. ABBREVIATIONS

ACAT	acquisition category
CSA	commercial support agreement
DAG	<i>Defense Acquisition Guidebook</i>
DAU	Defense Acquisition University
DFARS	Defense Federal Acquisition Regulation Supplement
DLA	Defense Logistics Agency
DMA	depot maintenance activity
DWCF	Defense Working Capital Funds
FMR	<i>Financial Management Regulation</i>
NAVICP	Naval Inventory Control Point
NDAA	<i>National Defense Authorization Act</i>
OEM	original equipment manufacturer
OSD	Office of the Secretary of Defense
OUSD(AT&L)	Under Secretary of Defense for Acquisition, Technology and Logistics
PBL	performance-based logistics
PM	program manager
PSAT	product support assessment team
PSI	product support integrator
PSM	product support manager
PSP	product support provider
USC	United States Code
WCF	working capital fund

