



DEFENSE LOGISTICS AGENCY

AMERICA'S COMBAT LOGISTICS SUPPORT AGENCY



Enterprise Performance Based Logistics (PBL) Value Proposition

17 Jun 13

WARFIGHTER SUPPORT

STEWARDSHIP EXCELLENCE

WORKFORCE DEVELOPMENT



Our Challenge

Budget Armageddon: DoD Prepares for Congressional 'Meat Axe'

Jan 10, 2013, US News and World Report

Panetta warns of severe reductions in operations if March sequester occurs

Jan 10, 2013, Federal Times

**First cut
\$487B
over
10 Years!**

**Then cut
\$500B
more over
10 Years!**

Today's Reality

Military Leaders Warn Congress of "Hollow" Force

Jan 16, 2013, Associated Press



A Smart Solution: Performance Based Logistics (PBL)

- Buys “performance” vs. “transactional support”
- Strategy that makes cost predictable – Firm Fixed Price contracts
- Industry and studies estimate 10% to 20% savings possible
- Aligns industry profit incentive with DoD support requirements
- Optimizes readiness – improved materiel reliability & availability



PBLs reduce DoD's cost per unit of performance while simultaneously driving up the absolute levels of readiness/availability when compared to non-PBL arrangements

Source: Performance Based Logistics and Project Proof Point, A Study of PBL Effectiveness, John Boyce and Allan Banghart, Defense AT&L Magazine Product Support Issue, March-April 2012, pp. 26-30



A Smarter Solution: Enterprise PBL

- Includes more than one Services' assets
- Multiplies PBL benefits through greater volume
- Leverages DoD's buying power (BBP 2.0) and economies of scale
- Further incentivizes industry investment in DoD assets

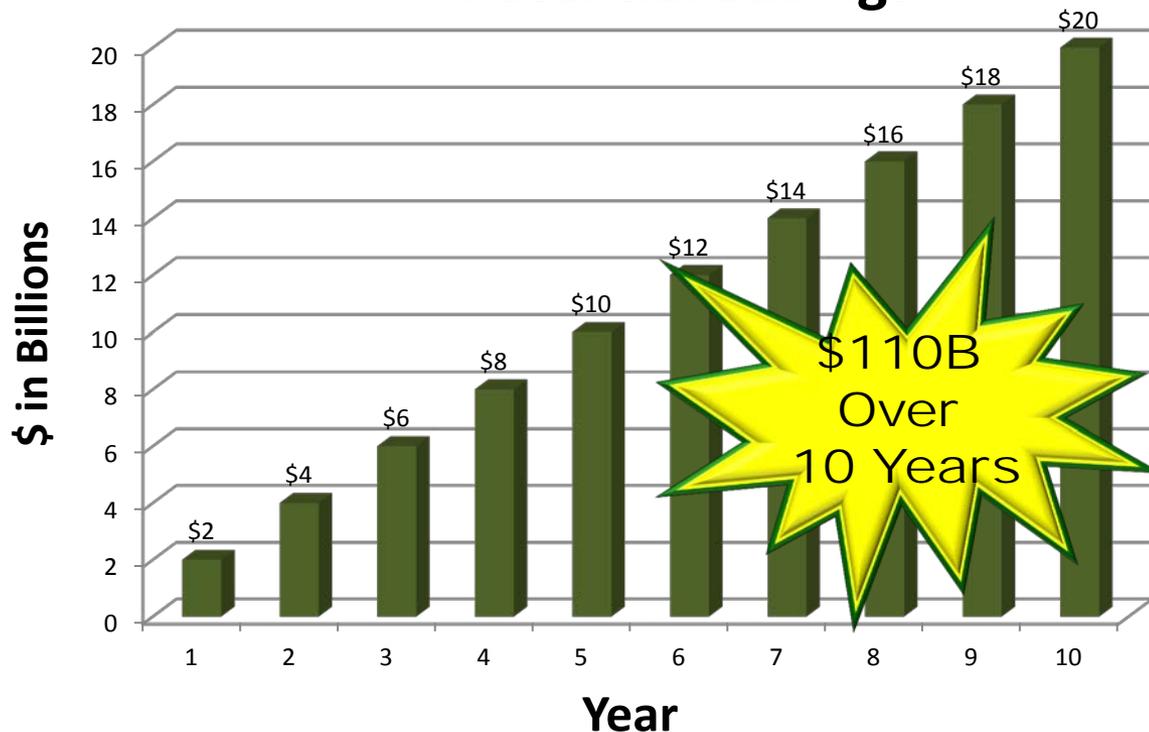
The Economies of Scale associated with Enterprise PBLs hold enormous performance and cost savings advantages for the DoD



DoD's Potential Savings via EPBLs

- DoD spends \$210B* annually on logistics
- As much as half of that amount may be addressable with EPBLs
- Industry and studies estimate 10-20% savings possible

Potential Savings



Note: Projections assume a level logistics budget over 10 years

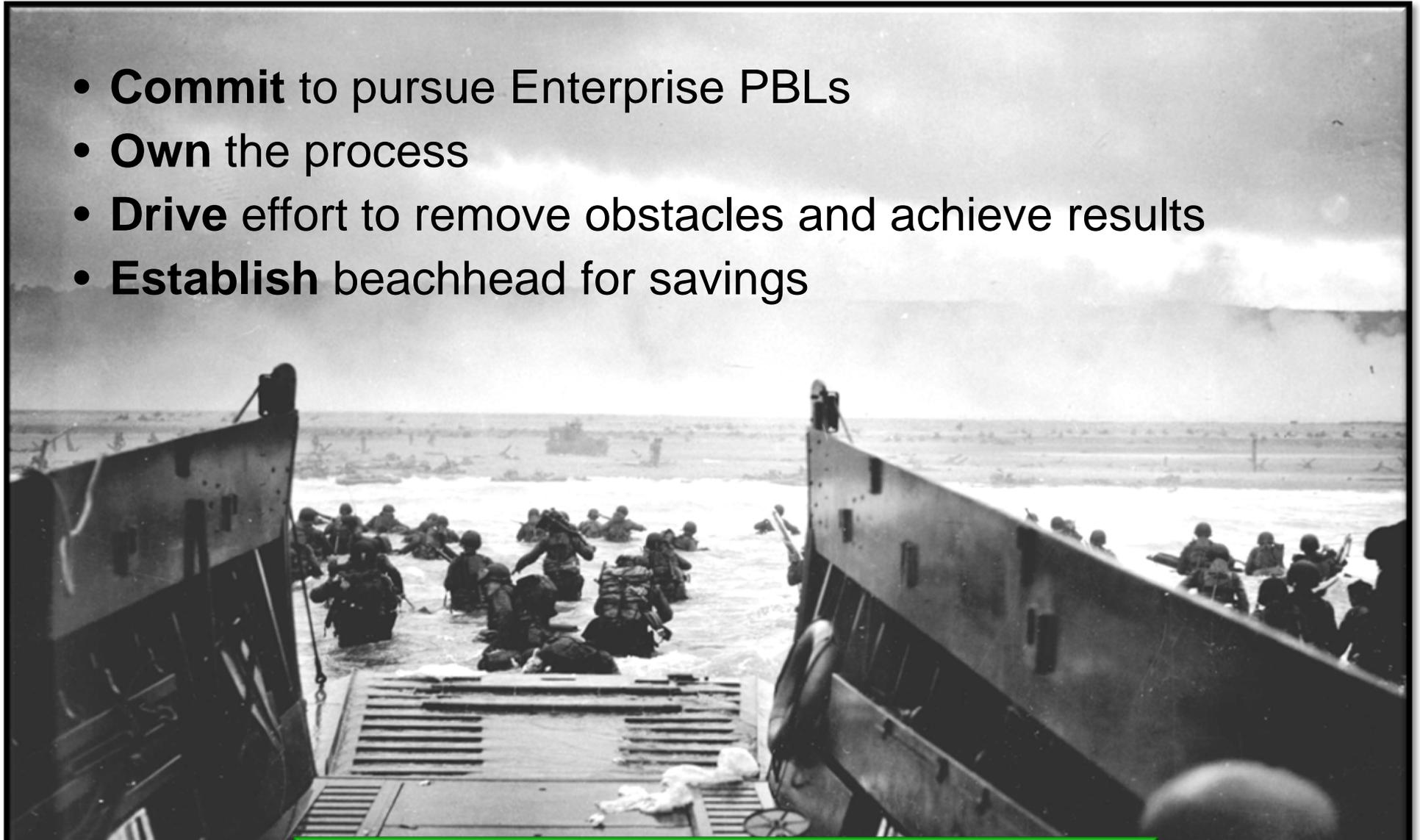
Potential Savings Are Too Big To Ignore

* Defense Business Board, baseline year FY2010



Way Ahead

- **Commit** to pursue Enterprise PBLs
- **Own** the process
- **Drive** effort to remove obstacles and achieve results
- **Establish** beachhead for savings



Start a stream—grow it into a river



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BACKUPS



Potential Honeywell EPBL Content

Value Proposition Platforms / Components



Aviation Ground Power Unit



A-10 APU



B-1 APU & A/C Mounted Accessory Drives



E-3 AWACS APU



H-60 APU



F-15 Jet Fuel Starter & Acc Drives (SPLS II)



C-5 APU



F/A-18 EnCS & Wheel and Brakes



CH-47 T-55 Engine



V-22 Env Control Sys, IR Suppressor, Valves & Avionics



Existing PBL USAF SPLS I C-130, Ground Cart APUs



Existing PBL Navy TLS F/A-18 APU & MFC P-3 APU & EDC C-2 APU



F-15 Emergency Power Unit



M1 Abrams Tank – AGT1500 Gas Turbine Engine

Additional Opportunities (not included in savings calculations)



P-8A Poseidon – all HON Components



KC-767 – all HON Components

Aggregated savings with the Honeywell EPBL contract being pursued exceeds \$400M for the Services over 10 years

And associated FMS Customer orders



Why PBL and Enterprise PBL?

- PBL/Enterprise PBL contracts establish a long-term product support arrangement that creates stability for the contractor and the Government
- Government purchases “performance” (e.g. 85% availability) instead of paying for “repairs” (rewards making repairs)
- Transfers risk from the Government to the contractor
- Contractor willing to assume risk and make investment in exchange for a calculated expectation of reasonable profit and contract term stability
- Drives healthy behavior by incentivizing contractor to make reliability investments and streamline the supply chain
- Improved performance at the same or less cost
- Contractors are far more capable than Government in identifying and driving out cost and sub-optimal outcomes
- OSD Proof Point study looked at 21 PBL contracts and validated that PBLs improve readiness at reduced life cycle cost

Properly structured and executed PBLs reduce Service's cost per unit-of-performance while simultaneously driving up absolute levels of system, sub-system, and component readiness

- Proof Point Study



OSD Proof Point Study

Proof Point study validated that *PBL arrangements which substantially adhere to generally recognized PBL tenets reduce DoD's cost per unit of performance while simultaneously driving up the absolute levels of system, sub-system, and major component readiness/availability when compared to non-PBL arrangements.*

Source: Performance Based Logistics and Project Proof Point, A Study of PBL Effectiveness, John Boyce and Allan Banghart, Defense AT&L Magazine Product Support Issue, March-April 2012, pp. 26-30

Figure 3. Aggregated Analysis Results

Program	Type	Maturity	Contract Length	Contract Type	Cost	Performance
	Sub-System	●	5 years	Firm Fixed Price w/ performance incentives	↓	↑
	Sub-System	●	5 year, one 3 year & one 2 year options	Firm Fixed Price w/ performance incentives	↓	↑
	Component	●	5 year base, two 5 year options	Firm Fixed Price w/ performance incentives	↓	↑
	Sub-System	●	5 year base, one 5 year option	Firm Fixed Price w/ performance incentives	↓*	↑*
	Sub-System	●	4 years	Firm Fixed Price w/ performance incentives	↓	↑
	System	●	5 years	Firm Fixed Price w/ performance incentives	↓	↑*
	Sub-System	●	1 year, 9 option years	Firm Fixed Price w/ performance incentives	↓	↑*
	Component	●	5 month base, 7 option years	Firm Fixed Price w/ performance incentives	↓	↑
	System	●	5 years	Firm Fixed Price Award Fee	↓	↑
	Sub-System	●	5 years, one 5 year option	Firm Fixed Price w/ performance incentives	↓	↑
	System	●	5 years	Firm Fixed Price w/ performance incentives	Indeterminate	↑
	System	●	— yearly	Cost Plus Incentive Fees	↓	↑
	Sub-System	●	5 years	Firm Fixed Price	↓	↑*
	System	●	6 year base, 6 option years	Cost Plus Award Fee	↓	↑
	System	●	1 base year, 7 option years	Fixed Price Award Fee, Cost Plus Incentive Fee	↓	↑*
	System	●	5 years, with option years	Firm Fixed Price w/ performance incentives	↓	↓
	System	●	1 year base, 7 option years	Fixed Price Incentive Fee	↑	↑
	System	●	1 year	Firm Fixed Price w/ performance incentives	↑	↑
	System	●	1 year	Cost Plus Incentive Fee/ Cost Plus Award Fee	↑	↑*
	System	●	1 year	Not Applicable	Indeterminate	↑*
	System	●	1 year	Cost Plus Fixed Fee	↑	↑*

* No Pre-PBL Support/Performance Exceeding Expectations
 ■ Not Validated

Competitively-awarded Performance-Based Logistics— Availability and Response Time Comparisons

Material Availability*

Navy Program	Pre-PBL	Post-PBL
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F-14 LANTIRN



73%

90%

H-60 Avionics



71%

85%

F/A-18 Stores Mgmt System



65%

98%



Tires

81%

98%



APU

65%

90%

Logistics Response Time**

Pre-PBL	Post-PBL
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56.9 Days

5 Days

52.7 Days

8 Days

42.6 Days

2 Days CONUS
7 Days OCONUS

28.9 Days

2 Days CONUS
4 Days OCONUS

35 Days

6.5 Days

Note: "Pre-PBL" is sole-source government and "Post-PBL is competitively awarded (either to private sector or to a public/private partnership

*Klevan, Paul, NAVICP, UID Program Manager Workshop Briefing, 5 May 2005

*Kratz, Lou, OSD, Status Report, NDIA Logistics Conference Briefing, 2 Mar 2004