

USAWC STRATEGY RESEARCH PROJECT

**PERFORMANCE-BASED LOGISTICS**

by

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## ABSTRACT

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This paper reviews the Executive Branch's support for the transformation of logistics. It analyzes the guidance of the Undersecretary of Defense for Acquisition, Technology and Logistics concerning the implementation of performance-based logistics (PBL). It describes the process for implementing PBL, assesses PBL's capability to improve and sustain weapon systems' readiness, and notes the military services' concepts for implementing PBL. It describes relationships pertaining to PBL among military services, defense activities, industrial bases, suppliers, and manufacturers. Finally, it describes how the Defense Logistics Agency plans to implement PBL and speculates on PBL's impact on the services.



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## PERFORMANCE-BASED LOGISTICS

If the Department of Defense is to stay prepared for the security challenges of the 21<sup>st</sup> century, we must transform not just our defense strategies, not just our military capabilities, not just the way we deter and defend—but we must also transform the way we conduct our business.

—Defense Secretary Donald Rumsfeld, June 4, 2003

The U. S. National Security Strategy has recently been implemented through the use of military power to resolve numerous conflicts throughout the world. Our Executive Branch leaders have relied on our military forces as the principal element of power to resolve various conflicts, ranging from the global war on terrorism to peacemaking and peacekeeping to preemptive war. Acknowledging the range of activities carried out by our military forces, many political leaders agree a transformation of our business and planning practices will be necessary in order to sustain peace around the globe.<sup>1</sup>

Given ongoing unrest around the world and an uncertain threat environment, U.S. leaders will continue to call on our military element of power, with its array of dynamic conventional weapon systems to resolve the world's conflicts. However, these weapon systems may not be effective for winning all future battles. The United States President George W. Bush recently proposed that our forces in the next century “must be agile, lethal, readily deployable, and require a minimum of logistical support.”<sup>2</sup> They must be prepared to conduct asymmetric warfare and to defeat unpredictable foes. Consequently, the military services must transform their weapon systems and logistics support from that used to sustain their superior performance in the past to that which will support the asymmetric warfare of the future.<sup>3</sup> Many senior leaders now view transformation as the answer to the President's call for change. In the Transformation Planning Guidance, Transformation means the process by which we shape the military through innovative “concepts, capabilities, people and organizations that exploit our nation's advantages and protect against our asymmetric vulnerabilities to sustain our strategic position, which helps underpin peace and stability in the world.”<sup>4</sup>

Our current transformation relies heavily on implementing Performance-Based Logistics (PBL), a logistics concept that streamlines the supply chain and offers other advantages as well. To implement PBL, military leaders need clear guidance to manage the evolving process. Accordingly, the Department of Defense (DOD) published the Quadrennial Defense Review (QDR) September 2001 for guidance. The DOD mandated implementation of the PBL concept and improved business systems including metrics that will reduce the supply chain, eliminate non-value-added steps, and improve the total life readiness of major weapons.<sup>5</sup> The PBL

concept specifies result through performance goals of weapon systems, establishes personal responsibility, provides incentives for accomplishing goals, and monitors life cycle system reliability, supportability, and total ownership costs, which are unobtainable in any current logistics sustainment concept.<sup>6</sup>

This paper reviews the Executive Branch's support for the transformation of logistics. It analyzes the guidance of the Undersecretary of Defense for Acquisition, Technology and Logistics concerning the implementation of performance-based logistics (PBL). It describes the process for implementing PBL. It assesses PBL's capability to provide a comprehensive process to improve and sustain weapon systems' readiness. It describes the military services' concepts for implementing PBL. It explains the relationships, pertaining to PBL, among military services, defense activities, industrial bases, suppliers, and manufacturers. Finally, it describes how the Defense Logistics Agency plans to implement PBL and considers PBL's potential impact on the services.

### **CURRENT SUSTAINMENT PROCESS**

Sustainment consists of the logistics support processes of supply, transportation, engineering, and maintenance that receive, store, and issue repair parts to the war-fighter. For aging U.S. weapon systems, the sustainment spending is approximately \$60 billion annually. Some estimates nearly double that cost to sustain today's force structure and seize the predicament.<sup>7</sup> To manage these dollars, DOD's logistics sustainment procedure consists of a complex array of numerous activities, processes, and automated systems. As an example, following an Army scenario for ordering a repair part from the supply chain, a supply soldier submits a requisition (if the needed part is not available in Prescribed Load List (PLL)), to a higher unit's supply support activity (SSA), which maintains an Authorized Support List (ASL). If the repair part is not available on the installation or field location (retail level), the requisition goes to Defense Logistics Agency's (DLA) inventory control points (ICP) (wholesale level). If the ICP does not have necessary repair parts available, the ICP contracts with one of the approximately 90,000 suppliers<sup>8</sup> at an industrial base (strategic level) to deliver repair parts immediately, anticipating that parts are in the pipe line or production line.

The PLL and ASL are required to support a deployed unit; therefore, they should maintain the stockage level at 100 percent at all times. However, expensive inventory costs and the requirements to stay light for deployment purposes have reduced the war-fighter's PLL and ASL, making it less likely the part will be available at the retail level. The PLL and ASL are demand-driven, like DLA's inventory levels. In today's environment, military leaders expect DLA

to provide retail repair parts in a short time much as ASL would. New logistics “Just-In-Time” and “Total Asset Visibility” concepts have created false assurance that DLA can quickly deliver these repair parts under the current sustainment process.

There are a myriad of activities, processes, and automated systems that are involved in the current logistics support sustainment process (see Figure 1), which offers a snapshot of the war-fighter’s and depot’s requisition migrating through the process to repair the weapon systems. Each military service participates in this arduous process, which is supposed to deliver repair parts to the war-fighter in a timely manner. Logistics sustainment relies on a distribution network from the suppliers to DLA’s depot for storage; maintenance activities for repairing the weapon system and data collection required for maintenance reporting. The Defense Automated Address Supply Center (DAASC) is the hub for all requisitions after they exit the retail level supply activity. The Service Transportation System (STS) tracks the payment and delivery actions. The Theater Support Command (TSC) is the military reach-back activity for logistics support from the field to CONUS supply chain and the management linkage for the war-fighter’s requirements. Headquarters elements of the Army Material Command (AMC),

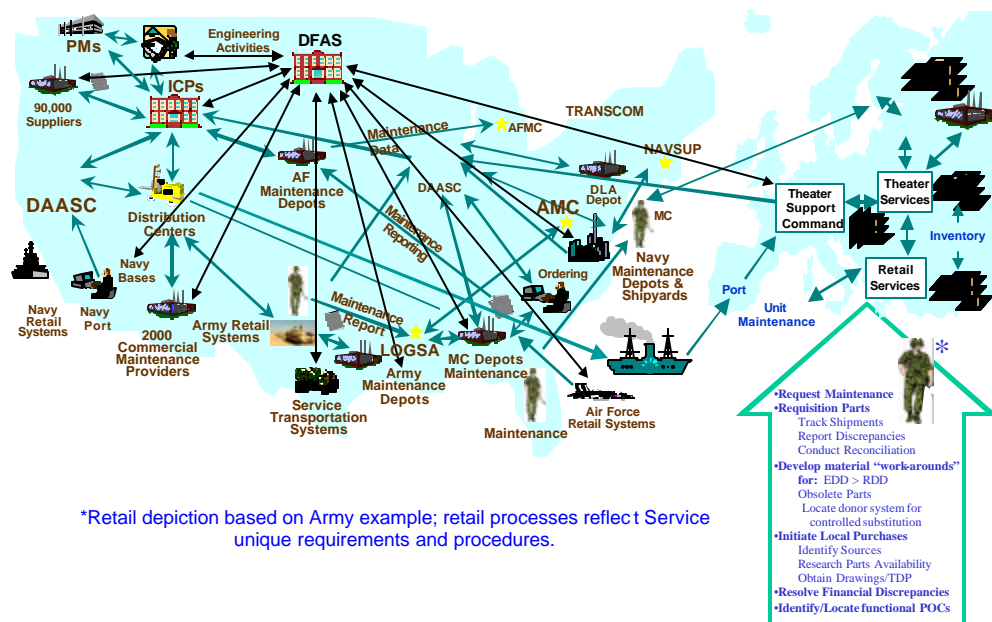


FIGURE 1. CURRENT SUSTAINMENT PROCESS

Navy Supply Systems Command (NAVSUP), Air Force Materiel Command (AFMC), and Transportation Support Command (TRANSCOM) oversee this time-consuming and management-intensive supply process. The center of the current sustainment process is the Defense Finance Accounting Service (DFAS), which records all financial transactions.

This current sustainment process has many deficiencies: untimely logistics response, redundant storage locations, and numerous complicated automated systems that fail to adequately track the current status of requisitions and parts. Because force providers and program managers do not think this current process is responsive, they routinely requisition and contract directly with the industrial base supplier rather than DLA to reduce or eliminate wait-times for supplies. When DLA does not capture these demands, DLA's stockage levels dwindle, reducing the chance DLA will have the required parts as requisitions come to DLA. "Today's current sustainment (see Figure 1) is a transaction-based logistics system with no one accountable for weapon systems."<sup>9</sup>

### **PBL CONCEPT**

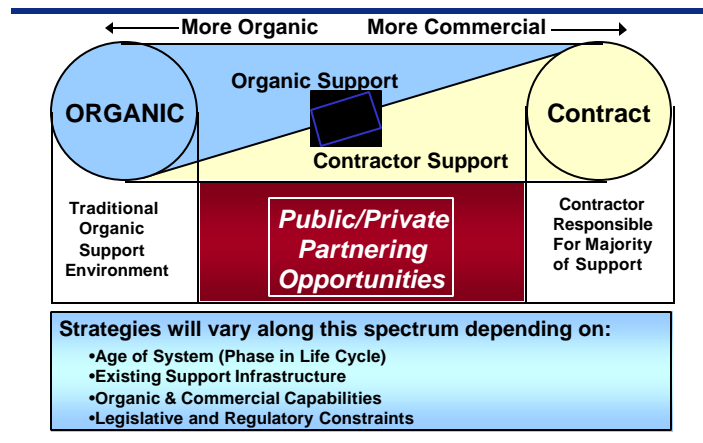
DoD accepts PBL as the advance for weapon systems support. PBL is intended to procure weapon systems product support as an incorporated, affordable, performance package to maximize readiness.<sup>10</sup> Product support is a comprehensive packet of activities designed to maintain the sustainment of weapon systems and components. Usually arranged with a government or industry organization, the product support effort may include inventory management of repair parts and components, management of production components, engineer insertion, and distribution of assets to the requisitioner.<sup>11</sup>

The operational readiness of a designated major weapon system is ultimately the war-fighter's goal. However, DoD suggests that functions which are not core government functions can be provided by the private sector to reduce workload requirements. In this purchasing effort to sustain the weapon systems' highest readiness, the contractor may provide all or a majority of the parts inventory management, parts supply distribution, engineering management, and technical assistance for maintenance repairs for the executive agent, known as the service acquisition executive (SAE).<sup>12</sup> To alleviate the numerous responsibilities placed on the contractor to maintain a weapon systems' highest readiness, the contractor receives guidance from the SAE to provide excellent logistics support. SAE and contractor establish readiness metrics to measure the contractor's performance for logistics support. PBL ensures that contractors are free to determine how to meet the performance objectives, to assure that appropriate performance quality levels are achieved, and to guarantee that payment is made

only for services that meet the performance quality levels. The SAE is responsible for PBL contracts. SAEs are often called the program manager (PM) or product executive officer (PEO). Therefore, SAE and PM may be used synonymously.<sup>13</sup>

**PBL IMPLEMENTATION**

In the military services' concept for using PBL, the PM plans to implement strategies that mingle commercial support and organic support, with constant collaboration to look for public and private partnering opportunities. The PBL contract considers the weapon system's age, existing support, legal or regulatory constraints, and other concerns (see Figure 2).<sup>14</sup> The PM's goal is to structure all aspects of PBL acquisition around the purpose of the work to be performed. The PBL process differs from the current sustainment process because it allows the PM to tailor the logistics support through negotiation with the contractor. Uniquely, PBL purchases results not resources for weapon systems. Additionally, PBL uses performance qualifications not design specifications for weapon systems. Moreover, PBL buys a solution or an outcome, not defines the process and methods to achieve a pre-determined course of action. Finally, PBL assigns responsibility to the supplier not the requiring activity.<sup>15</sup> In PBL, the PM starts out with a statement of what is desired and expected. In the PBL contract, the PM includes Performance Work Statement (PWS) requirements or Statements of Objectives (SOO) that are understandable, explicit, and objective with calculable outcomes.<sup>16</sup> Military personnel have performed the requirements that may ultimately be the contractor's responsibilities; therefore, the services should have historical data to arrive at agreeable standards.



*Integrity - Service - Excellence*  
 FIGURE 2. PROJECT SUPPORT STRATEGIES



## **PBL PERFORMANCE AGREEMENTS**

The Force Provider's operational readiness objectives or performance requirements will be used first in establishing metrics for the Performance Agreements (PA) to measure product support.<sup>17</sup> There are four imperative requirements for the metrics. First, the Force Provider's objectives must be reliable with the military decision-making process and allotment of resources. Second, the metrics must be specified at the highest weapon system level achievable. The metrics should be achievable by the Support Provider, who should be responsible accordance metrics of effectiveness and efficiency. Third, the Support Provider will measure his support effectiveness based on the Force Provider's objectives and the sum of money available to accomplish Force Provider objectives. Finally, the Force Provider's desired outcomes and means to obtain the outcomes promised for the sustainment in the PA must be agreed upon and approved by signature of the approving authority.<sup>18</sup>

The PAs must have options and flexibility to allow for service support improvements for weapon systems' life cycle. Usually, as the metrics and standards of the weapon systems' level of performance improve so do the enemy's weapon systems. Therefore, it is paramount that the PA includes innovation and technology improvements to surpass the foe's weapon systems' capability. Additionally, when the requirement for weapon systems support reduces or surges for the Force Provider and Support Provider, the PA must have provisions for scaling back or ramping up production. And, when fund allocation changes due to budget constraints, the PA must support these changes without degrading readiness. Moreover, PAs clearly establish a process to document and legitimize all parties' efforts to minimize unnecessary government spending and maximize the ability to meet readiness objectives to sustain the weapon systems.<sup>19</sup> SAE strives to ensure long-term PAs that maintain flexibility, reducing the need for modifications. However, PAs should be reviewed and made current at least annually, checking for accuracy of funding goals as well as the weapon systems readiness.<sup>20</sup>

In establishing responsibility for PAs, the public or private product support integrator (PSI) starts the process of bring together the support package for the weapons systems. Frequently, the PSI is the only point of contact.<sup>21</sup> If private segment support (such as business contractual planning) initiates the PA, the Force Provider ensures unambiguous contract terms, which inspires responsibility. Additionally, if public (organic) Support Providers implement the PA, the responsibility and liability must be documented in a Memorandums of Agreement or a Service Level Agreements. In the case of PBL, the providers, public and private guarantee the same answerability. This management for public and private providers accounts for reasonable and dependable opportunity and enforcement.<sup>22</sup>

## PBL CONTRACT AGREEMENTS

The PM plans to contract the performance requirements needed by the war-fighter (Force Provider) to Industry (Support Provider) as a Package of Performance (see Figure 3).<sup>23</sup> The PBL Contract Agreement (CA) cites who is responsible for monitoring and managing risk throughout the total life cycle of the weapon systems; so PBL contracting builds on the assurance that the contractors will perform to the expected standard. And the contractor is paid based upon attainment of predetermined contractual goals. The PBL CA specifies what is to be accomplished, performance standards to which the contract will be held, how the performance standards will be measured, and how the contractor's performance will be monitored with respect to performance standards.<sup>24</sup>



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FIGURE 3. PERFORMANCE-BASED LOGISTICS

In more specific terms, the PBL CA:

- improves competition between the government and commercial entities;
- emphasizes innovation to arrive at the highest performance systems,
- guarantees development of quality measurement,
- transfers majority of the responsibility to the contractor.<sup>25</sup>

The PBL CA establishes documents, agreed upon by the SAE and contractor for performance and support. To avoid failure, these CAs are based on realistic performance standards and support requirements. Additionally, the government representative (Force

Provider, Program Manager, and Project Support Integrator) and the contractor's corporate structure should sign it. Then, this CA serves as a collaborating document to continuously evaluate actual service support metrics to assess its effectiveness and to provide corrective actions. PBL designates authority to the PM and contractor to ensure accountability and responsibility.<sup>26</sup>

### **PBL AUTHORITY**

The government's and contractor's representative is responsible for the accuracy and efficiency of the Performance and Contract Agreement. But, the guidance for the goals and responsibilities within DOD and military service decision-making process must be clearly defined. The goals for weapon systems readiness necessities start with the Combatant Commander's force projection capability requirements. The next step is shifting readiness levels to concrete Force Provider's mission essential tasks and funds in order to achieve each military service's goals in the budget development. There are three priority resource budget levels. Those priority levels migrate through DOD, Service and Command. And, these priority levels are transferred to weapon systems. PAs systematize the results of the military service decisions and emphasis on weapon system support. . What is very important to this process is that the operational support necessities are funded for each weapon system.

PBL authority for the weapon systems' approval or disapproval falls into four areas:

- The Force Provider (s) may include either the Service or Lead Command, along with Major Command.
- The Program Manager or Program Executive Officer in the Program Office may have total authority.
- The Primary Support Provider(s) may include a private contractor and/or an organic activity such as a Depot or an Integrated Materiel Management Center (IMMC).
- The Support Providers may include Defense Logistics Agency (DLA) or Third Party Logistics Provides (3PLs).<sup>27</sup>

Even though PBL provides clear objectives and measures the metrics, its benefits and challenges must be comprehensive at the onset of the contract.

### **PBL BENEFIT AND CHALLENGES**

Below are PBL benefits that can be addressed from a SAE standpoint, which may assist in developing and promoting the PBL marketing strategies.

- Providing Logistics Management Information that would be helpful in the program success.

- Implementing Automated Identification Technology to improve asset visibility.
- Using contracted integrated technical information system to reduce government expense.
- Implementing long term contracts that will reduce administrative time.
- Embedding diagnostics and prognostics that will assist in sustainment and predictability of failures.
- Establishing temporary waivers for Contractors on the Battlefield due to new technology development.
- Establishing performance based agreements policy that provides metrics to measure results.

Below are also PBL challenges that must be addressed and overcome to make PBL successful.

- Establishing a cost accounting system that allows the PM to secure funding to capture needed data.
- Providing PBL payment up-front reduces commander's flexibility regardless of precedence for weapon system sustainment.
- Collecting specific data and performing evaluations will be rigorous.
- Increasing the reliance on contractors could impact weapon system's readiness during deployments.
- Identifying organic logistics systems not designed for performance specifications.
- Establishing procedure for incentivizing and penalizing government organizations.

Following statutory limitations, e.g. 50/50 rule to maintain organic and commercial support, depot core analysis, and concerns for A-76 Study requirements.<sup>28</sup>

### **BUSINESS CASE ANALYSIS**

In order to ensure the PBL contract is the "best value" for the government, the PM conducts a Business Case Analysis (BCA). The BCA compares a contractor's support alternative which includes the cost of that weapon systems' logistics support against government's support. This BCA could include total contractor support or a mixture of commercial and governmental support (includes parts support from DLA). If contractor support is deemed as the "best value," the SAE awards PBL contract for services and parts to the contractor. Usually spare parts are not identified, but often this is where PBL provides its concept of efficiency and effectiveness. Therefore, all logistics support should be considered in

the BCA. The services' PBL implementation plan needs to be evaluated to arrive at the best business practices, ensuring the highest operational readiness of the weapon system.<sup>29</sup>

## **MILITARY SERVICES' PBL IMPLEMENTATION PLANS**

### **NAVY**

The responsible agent for managing the Navy's PBL plan is the Naval Sea Systems Command (NAVSEA). First, to develop "best value" support solutions, NAVSEA's goal will be to evaluate traditional organic support and commercial business practices, age of the system (phase in the life cycle), existing support infrastructure, and legislative and regulatory constraints. NAVSEA plans to tailor PBL best values contracts with the commercial business and maintain the traditional organic support that is most effective for the war-fighter (See Figure 2).<sup>30</sup>

Second, after this step is thoroughly accomplished and approved, the PM establishes metrics and procedures to measure the return on investments. As mentioned in the PBL concept, these metrics assist in developing a PA with the prospective support provider for logistics support. Finally, once the performance based vehicle is agreed upon and approved by all parties, NAVSEA establishes a business case analysis and business value agreement for the weapon systems. The funding approved for the contractor's incentives will be received only if the war-fighter receives excellent results from the logistics support. During the detailed analysis, the government and contractor collaborate to ensure buy-in through the entire process.

NAVSEA plans to conduct continuous performance assessments procedures on the ability of the contractor to perform its responsibilities. The service will also conduct assessment on the metric to ensure the highest mission readiness capability for the war-fighter.<sup>31</sup> In order to meet the goals for transformation and PBL, NAVSEA plans to retire 36 ships and invest the resulting savings into a number of new classes of ships.<sup>32</sup>

NAVSEA gains five benefits for implementing PBL in addition to the benefits mentioned initially. First, Total life cycle support strategies are focused on weapon system performance and sustainment. Second, the PM is responsible for the Total Life Cycle System Management (TLCSM). Third, PBL brings together the best of public and private capabilities. Fourth, there is an anticipated decrease in the maintenance work load in the ship and shore area. Finally, PBL implementation supports the weapon system engineering process and enables its design for improved supportability.<sup>33</sup>

However, the Navy faces five challenges in implementing PBL. First, the ability of the PM to execute TLCSM requires financial authority and resources. Second, transfer of resources from the fleet limits their flexibility to sustain capabilities at an operational level. Third, defining unambiguous performance results, acceptable metrics, and objective evaluations criteria may require collaboration from the government and commercial partners at all levels. Fourth, the ability to secure the larger interest of the Navy's core National Security capability; and finally, PBL implementation must ensure that legal and funding restrictions are addressed and clearly communicated to NAVSEA's personnel.<sup>34</sup> NAVSEA's PBL approach ensures constant war-fighting participation, understandable performance based agreements, best value product support solutions, and permanent PBL assessments.<sup>35</sup>

#### AIR FORCE

PBL implementation for the Air Force is managed by the Air Force Installation Logistics Maintenance Management (AFILMM) Office in the Pentagon. It seeks to continue world-class performance, to ensure customer and product intervention focus, to weighing scale of performance and expenditure, to institute elasticity, to maintain authority and direction, and to produce a PBL back-to-back sustainment spotlight.<sup>36</sup> The Air Force plans to achieve their objectives through leveraging the core skills and energizing new ideas from the public and private sectors to maintain the war-fighter competitive advantage. The service has established strategies, which include re-engineering processes for weapon systems and preparing metrics, to focus on satisfying the ultimate customer at the operational level.<sup>37</sup> To improve weapon system support and achieve "best value", another strategy calls for outsourcing in a process that has incorporated reciprocal strengths of the public and private entities.<sup>38</sup> Further, AFILMM plans to evaluate the established organic support situation and the contractor's liability for support. This will create opportunities for partnering with public and private businesses. Using PBL, the agent will be looking for common war-fighting systems and processes that might apply for other services to impact cost savings and build joint support.<sup>39</sup>

In order to maintain proper funding, the Air Force also focuses extensively on retaining nucleus logistics skills in the areas of depot maintenance approach and Title 10 responsibilities and conformity. Moreover, the Air Force plans to retain sufficient supply and technological know-how of their personnel. Finally, they will safeguard competitive options and right of entry to equipment and information from PBL contracts.<sup>40</sup> The resources for the Air Force to implement PBL and other projects will come from approximately \$20 billion in its budget to

support new transformation requirements. The Air Force has retired a quantity of older aircraft and reconfigured some squadrons to realize further savings.<sup>41</sup>

## ARMY

The Army's objectives begin with establishing unambiguous roles and responsibilities. The Army's objectives are to provide war-fighters weapon systems with the highest operational capability, quickest delivery of logistic support, shortest deployment window with efficiency, least amount of logistics build-up, and largest cost saving for logistics.<sup>42</sup>

To implement PBLs, the Army utilizes business initiatives such as policy changes, procedures improvements, training and education of best business practice, organizational realignments, technology, legislative initiatives, and financial mechanisms. Before the PBL concept, the Army established a program to reduce weapon system's sustainment cost named the Reduction in Total Ownership Cost program. The Army used the term Performance Plan Agreement (PPA), which is akin to Performance Based Agreement. PPA serves a similar role as PBA, which ensures a way to measure goals and to see if they are being achieved.<sup>43</sup> The Army's objectives have not changed: the Army requires acquisition managers of all ACAT I and II programs (see figures 4 and 5) to evaluate their programs for the possibility of implementing PBL, which will improve weapon systems readiness.<sup>44</sup> Along with evaluating the weapon systems programs, the acquisition managers must also present their proposed PBL suggestions to the Assistant Secretary for Army, Acquisition, Logistics and Technology (ASAALT) for appraisal.<sup>45</sup>

Moreover, acquisition managers will apply PBL to ACAT I and II and sub-systems when proven to be cost-effective and a sound decision for the war-fighter. After a BCA has been completed for the suggested PBL, the BCA must be validated by the U.S. Army Cost Economic Analysis Center (CEAC). The PBL will be approved at the Headquarters Department of the Army level.<sup>46</sup> The Army plans to transfer roughly \$20 billion out of programs it might have funded in its O2 program into different accounts.<sup>47</sup> This process circles back to the initial goal, which is to define how a weapon systems' support strategy is selected and who is responsible for the system. When the Army completes its analysis, it must collaborate with Defense Logistics Agency to ensure future supply support is established in the "best value" for the government.

## ACAT IC Examples

- **ABRAMS Upgrade** – Abrams Tank Upgrade
- **ATIRCM/CMWS** – Advance Threat Infrared Countermeasures/Common Missile Warning System
- **BRADLEY Upgrade** – Bradley Fighting Vehicle System Upgrade
- **CH-47F** – Cargo Helicopter upgrade
- **EXCALIBUR** – Family of Precision 155mm Projectiles
- **FMTV** – Family of Medium Tactical Vehicles
- **JTRS CLUSTER 5** – Joint Tactical Radio System
- **GMLRS** – Guided Multiple Launch Rocket System
- **HIMARS** – High Mobility Artillery Rocket System
- **JAVELIN** – Advanced Anti-Tank Weapon System
- **LAND WARRIOR** – Integrated soldier fighting system for the Infantryman
- **LONGBOW APACHE** – Radar-Based Target Acquisition and Fire Control System which includes airframe modifications on the Apache Helicopter
- **LONGBOW HELLFIRE** – HELLFIRE Missile System compatible with the LONGBOW Fire Control Radar.
- **PATRIOT PAC-3** – Patriot Advanced Capability 3. *(14 programs)*

FIGURE 4. ACAT I WEAPON SYSTEMS.

## ACAT II Examples

- **Battlefield Combat Identification System (BCIS)** – Millimeter wave friend identification system
- **Close Combat Tactical Trainer (CTTT)**
- **GRIZZLY** - obstacle breaching vehicle
- **HERCULES** - heavy recovery vehicle
- **PALADIN** - 155mm self-propelled artillery
- **Palletized Loading System** – 16.5 ton payload prime mover with integral load handling system
- **2<sup>nd</sup> Generation FLIR** – Forward Looking Infrared
- **WOLVERINE** - Heavy Assault Bridge

FIGURE 5. ACAT II WEAPON SYSTEMS.



## **DEFENSE LOGISTICS AGENCY (DLA) SUPPORTING PBL**

Since the 1960s, the DLA has provided wholesale consumable repair parts to the military services. This support requires being adaptable to the customer's business processes and responsive in a most "effective and efficient manner."<sup>48</sup> Under guidance in the Quadrennial Defense Review, which describes the need to reduce the logistics footprint and implement PBL, DLA has changed its focus to better support the military services' implementation of PBL. If DLA overlooks this opportunity to partner with the services and commercial contractors on this PBL initiative, DLA stands to lose billion of dollars in sales annually. Under PBL the military services have a choice to procure repair parts directly from the contractor. Since DLA's ICPs "manage and supply over 4 million consumable national stock numbers (NSNs) used to support 1,392 different weapon systems."<sup>49</sup> DLA strongly markets to the services and expects the services to purchase inventory that exist in the DLA's depots. When the SAE implements a PBL contract and does not consider DLA as a Source of Supply (SOS) in their BCA, their analysis will overlook the fact that DLA obtains very low prices and competitive response times through leveraged buying and long-term contracts for common consumable items used on different weapon systems and military services.<sup>50</sup>

In their initial analyses, SAEs review PBL contract implementation as a competitive advantage for improving the services' weapon systems readiness. However, when the BCA is completed and DLA's wholesale supply support is considered, the SAEs gain a new perspective of DLA's capability to be a SOS. Because the PM's overall goal is to improve and sustain weapon systems' readiness, they cannot discount the cost advantage of a government support provider, DLA.

Based on the Interim Defense Acquisition Guidebook, published October 30, 2002, PMs have the latitude in selecting a source of supply support that provides the "best value" of support to the war-fighter.<sup>51</sup> DLA has partnered with the PM to provide knowledge of new programs that will make the services transition to PBL effective and efficient. For example, DLA established a Strategic Supplier Alliance (SSA) that allows partnering with the major original equipment manufacturer (OEM) suppliers. DLA and OEM consider the best procurement contract type such as long-term contracts (LTC) or corporate contract (CC) in establishing consumable repair part contracts. For the war-fighter, DLA's initiative reduces administrative lead times and reduces production lead times (PLT), while reducing the response time for delivery of parts.<sup>52</sup> Moreover, with DLA aspiring to be the best in supply support, DLA anticipates a reduction in parts delivery response time through Direct Vendor Delivery (DVD), Prime Vendor (PV)/ Virtual Prime Vendor (VPV), which are contracts with performance based metrics.<sup>53</sup>

Additionally, DLA awards standard LTC contractual support for multiple years with electronic delivery orders, allowing parts to arrive from the warehouse through DVD from the manufacturer's facility. To reduce the requirement to award numerous contracts, DLA establishes a single supplier with a CC that combines the repair parts requirements of more than one DLA ICP. DLA introduces new business practices with "commercial distributor, OEM, or third party logistics provider for integrated support that may include forecasting, inventory management, distribution, engineering support, technical services or other services"<sup>54</sup> to support the war-fighter's requirements.

DLA's ICPs focus on particular commodities, which enhance their ability to provide exceptional support to the war-fighter. Defense Supply Center Columbus focuses on land, maritime, missile, electronic and space weapon systems; Defense Supply Center Richmond focuses on aviation weapon systems and Defense Supply Center Philadelphia focuses on general and industrial hardware support parts.<sup>55</sup>

DLA continuous engagement with the military services and industry in PBL will require new strategy and process. These strategies and processes will center on the Weapon Systems and Troop Support Lead Center concept and improvements in the Customer Relationship Management (CRM). Additionally, DLA's personnel build relationships with Program Managers and Systems Program Directors as it relates to PBL initiatives.<sup>56</sup> DLA understands the guidance and mandatory requirement placed on the military services' Program Managers by the USD (AT&L) to implement PBL contracts. Therefore, DLA will assist PMs who are charged to reduce costs and improve readiness by incentivizing the OEM or product support integrator to increase reliability (example time-on-wing for aircraft) and reduce spare parts consumption and cost for sustainment.<sup>57</sup> DLA discusses with PMs about how the ICPs can support their readiness outcomes through measures such as operational availability, mission capabilities rates, time on wing, total non mission capable supply and other performance measures.<sup>58</sup> PMs have discussed with DLA proposals that PBL providers may provide logistics support in these areas: warehousing, shipping, consumable piece parts, design management, repair/overhaul and replace of components, and types of certain reliability.<sup>59</sup> Each PBL the PM implements must pass a BCA, which will require assistance from DLA's ICPs. With DLA experience in support to the military services, DLA has identified advantages and disadvantages for PBL.

#### PBL ADVANTAGES AND DISADVANTAGES

DLA's review finds the PBL's advantages are the following:

- establishes one touch-point for sustainment for most customer requirements.;

- permits one budget line for consumerable parts in the future;
- may allows single systems to get priority (still in the working stage);
- identifies expected dependability and readiness improvement not available before.

DLA's review finds the PBL's disadvantages as the following:

- lacks opportunity to influence many systems with supplier;
- generates competition for the matching sparse resources;
- reduces contact to numerous assets as opposed to DLA's and DOD's supply systems;
- puts Small Businesses and Industrial Base at advantage when contending with major contractors.<sup>60</sup>

DLA reorganized to support the PBL contracts by establishing a centralized PBL management team in the Customer Operations Directorate at Defense Supply Center Richmond (DSCR). DSCR developed a process to identify, prioritize, and engage military services on all PBL initiatives in 2003. Additionally, DSCR developed an integrated PBL engagement strategy for aviation support that aligns with the Office Secretary of Defense, DLA Guidance, Aviation Supply Support Assistance processes, military service requirements, and long-term health of DLA.<sup>61</sup> DSCR's management team established a Focus Group Improvement Program Team (IPT), including DLA Headquarters and other ICP participation with Project Managers. DSCR also coordinated with other directorates and DLA field activities to provide functional expertise where and when required for assisting the services on PBL solutions. DLA's ICPs developed a cohesive and coordinated engagement plan, which includes responsibilities at the ICPs, internal reporting and tracking tools, and developing a training plan for PBL Project Officers in coordination with DLA Headquarters and Defense Training Coordinator. Project Officers track individual partnering solutions using Microsoft Project, hold regular meetings on PBL projects, and monitor performance for each initiative after implementation by the military service.<sup>62</sup>

#### DLA IMPACTS SERVICES' PBL

DLA engages in PBL initiatives with the services in one of three ways:

- DLA fully partners with the contracting activity and adds its items to the contract. Sometimes this requires upfront payments from activities outside of DLA.
- DLA partners with the contractor. This requires the contracting service to give the contractor the authority to order parts from DLA. The contractor then becomes a customer of DLA.

- If the service and contractor both decline to partner with DLA, DLA requires the service to draw down assets procured for that service or activity based on its market share of demand.<sup>63</sup>

## **CONCLUSION**

The defense policy to implement PBL mandated setting measurable performance standards, and establishing concepts and processes to ensure the highest weapon systems readiness in the most effective and efficient manner during time of conflict. PBL provides the necessary guidance to manage the responsibilities of government money. Moreover, it allows government and commercial contractor representatives to share in the responsibility to collaborate on performance measures that will ensure our weapon systems can respond and defeat any threat. PBL also provides procedures for the services to improve their weapon systems' readiness and methods for tracking the contractor's performance to the measurable standards, ensuring success for the war-fighter. Based on intensive management by the senior military leaders and contractors, PBL will reduce the burden on the war-fighter, allowing time to train with operational weapon systems and defeating the enemy. Finally, given the current need to intensely micro-manage funds effectively and efficiently for weapon systems at the DOD senior level, all military services will monitor the weapon systems programs for waste of resources.

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## ENDNOTES

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<sup>2</sup> Dr. Stephen A. Cambone, “*Transforming the Defense Establishment*” 27 January 2003, available from <http://www.defenselink.mil/speeches/2003/sp2000127-0006.html>; internet; accessed 15 September 2003. 1.

<sup>3</sup> Donald H. Rumsfeld, U.S. Secretary of Defense, Department of Defense, *Transformation Planning Guidance*, Washington, D.C., April 2003, 4.

<sup>4</sup> *Ibid.*, 3.

<sup>5</sup> Donald H. Rumsfeld, U.S. Secretary of Defense, Department of Defense, *Quadrennial Defense Review Report*, Washington, D.C., 30 September 2001, 56.

<sup>6</sup> E.C. Aldridge, Under Secretary Of Defense, “*Performance Based Logistics*.” Memorandum for Assistant Secretary of the Army, (Acquisition, Logistics and Technology), Assistant Secretary of the Navy (Research, Development, & Acquisition), Assistant Secretary of the Air Force (Acquisition) Washington, D.C. 13 February 2002, 1.

<sup>7</sup> Donald H. Rumsfeld, U.S. Secretary of Defense, Department of Defense, *Quadrennial Defense Review Report*, 30 September 2001, 68.

<sup>8</sup> Department of the Defense, “*Developing Performance Based Logistics (PBL) Strategy, PEO/SYSCOM Workshop*,” briefing slides with scripted commentary, Fort Belvoir, VA., Spring 2002, 20.

<sup>9</sup> *Ibid.* 20.

<sup>10</sup> Jerry C. Cothran, Assistant Deputy, Under Secretary of Defense (Logistics Plans and Programs), *Draft White Paper Performance Agreements as a Critical Component of Performance Based Logistics*, Washington, DC, 1.

<sup>11</sup> Department of the Defense, “*Developing Performance Based Logistics (PBL) Strategy, PEO/SYSCOM Workshop*,” briefing slides with scripted commentary, Fort Belvoir, VA, Spring 2002, 21.

<sup>12</sup> Donald H. Rumsfeld, U.S. Secretary of Defense, Department of Defense, *Quadrennial Defense Review Report*, 30 September 2001, 53.

<sup>13</sup> Department of the Air Force, ALM-35-8818-GD1, “*Contracting for Acquisition Logistics*,” Wright Patterson, OH, 35..

<sup>14</sup> Department of Defense, Headquarters U.S. Air Force, “Air Force, Performance Based Logistics,” briefing slides with scripted commentary, 6.

<sup>15</sup> Larry W. Hill, Director, Integrated Logistics Support (ILS), “*Performance-Based Logistics (PBL)*,” briefing slides, Washington, D.C., 13-14 November 2003, 6.

<sup>16</sup> John C Goodhart, Assistant Deputy Commander, Fleet Logistics Support, “NAVSEA Performance Based Logistics (PBL) Policy,” enclosure 1, Memorandum for Program Managers, Washington, D.C., 11 February 2003, 4.

<sup>17</sup> Ibid., enclosure 3, pg 1.

<sup>18</sup> Jerry Cothran, Assistant Deputy, Under Secretary of Defense (Logistics Plans and Programs), *Draft White Paper Performance Agreements as a Critical Component of Performance Based Logistics*, Washington, D.C., 4.

<sup>19</sup> Ibid., 5.

<sup>20</sup> Program Executive Officer, Integration Weapon System, Memorandum of Agreement, “Performance Based Agreement between PEO IWS 3B and The Fleet,” December 17, 2003, 4.

<sup>21</sup> John C. Goodhart, Assistant Deputy Commander, Fleet Logistics Support, “NAVSEA Performance Based Logistics (PBL) Policy,” enclosure 3, Memorandum for Program Managers, Washington, D.C., 11 February 2003, 3..

<sup>22</sup> Jerry Cothran, Assistant Deputy, Under Secretary of Defense (Logistics Plans and Programs), *Draft White Paper Performance Agreements as a Critical Component of Performance Based Logistics*, Washington, D.C., 6.

<sup>23</sup> Douglas E. Walker, Chief, Weapon System Initiative Division, “DLA’s Role in Service’s Performance Based Logistics Initiative for Weapon Systems, briefing slides with scripted commentary, Fort Belvoir, VA. 3 December 2003, 3.

<sup>24</sup> John C. Goodhart, Assistant Deputy Commander, Fleet Logistics Support, “NAVSEA Performance Based Logistics (PBL) Policy,” enclosure 1, Memorandum for Program Managers, Washington, D.C., 11 February 2003, 4.

<sup>25</sup> Department of the Air Force, ALM-35-8818-GD1, “*Contracting for Acquisition Logistics*,” Wright Patterson, OH, 37.

<sup>26</sup> Sea Systems Command, Commander, “NAVSEA Requirements for Implementing Performance Based Logistics (PBL),” Washington, D.C. 17 December 2003, 4.

<sup>27</sup> Jerry Cothran, Assistant Deputy, Under Secretary of Defense (Logistics Plans and Programs), *Draft White Paper Performance Agreements as a Critical Component of Performance Based Logistics*, pg 3.

<sup>28</sup> Claude M. Bolton, Jr., Office of the Assistant Secretary of the Army, “Performance-Based Logistics (PBL),” Memorandum for Under Secretary of Defense (Acquisition Technology and Logistics) enclosure 1, Washington, D.C., 8 July 2002, 3.

<sup>29</sup> Larry W. Hill, Director, Integrated Logistics Support (ILS), “*Performance-Based Logistics (PBL)*,” briefing slides, Washington, D.C., 13-14 November 2003, 13.

<sup>30</sup> ADM. W. F. Dorn, Commander, U. S. Pacific Fleet, (NAVSEA 04L "Performance Based Logistics (PBL)," briefing with commentary, December 2003, 5.

<sup>31</sup> *Ibid.*, 3.

<sup>32</sup> Dr. Stephen A. Cambone, "Transforming the Defense Establishment." 27 January 2003, available from <http://www.defenselink.mil/speeches/2003/sp2000127-0006.html>; internet; accessed 15 September 2003, 9.

<sup>33</sup> ADM. W. F. Dorn,, Commander, U. S. Pacific Fleet, (NAVSEA 04L "Performance Based Logistics (PBL)," briefing. December 2003 10.

<sup>34</sup> *Ibid.*, 11.

<sup>35</sup> *Ibid.* 12.

<sup>36</sup> Jan Mulligan, Acquisition Logistics Depot Level Policy, <jan.milligan@pentagon.af.mil> "Air Force Performance Based Logistics," electronic email to Bobby Claiborne, 15 October 2003, 3.

<sup>37</sup> *Ibid.*, 4.

<sup>38</sup> *Ibid.*, 5.

<sup>39</sup> *Ibid.*, 6.

<sup>40</sup> *Ibid.*, 7.

<sup>41</sup> Dr. Stephen A. Cambone, "Transforming the Defense Establishment." 27 January 2003, available from <http://www.defenselink.mil/speeches/2003/sp2000127-0006.html>; internet; accessed 15 September 2003, 9.

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<sup>43</sup> Claude M. Bolton Jr., Office of the Assistant Secretary of the Army, "Performance-Based Logistics (PBL)," Memorandum for Under Secretary of Defense (Acquisition Technology and Logistics) enclosure, Washington, D.C., 8 July 2002, 1.

<sup>44</sup> George Sears, Army War College, "Introduction to Acquisition," briefing slides, Carlisle Barracks, PA, Fall 2003, 49-50.

<sup>45</sup> Claude M. Bolton Jr., Office of the Assistant Secretary of the Army, "Performance-Based Logistics (PBL)," Memorandum for Under Secretary of Defense (Acquisition Technology and Logistics) enclosure, Washington, D.C., 8 July 2002, 1.

<sup>46</sup> *Ibid.*,2.



<sup>47</sup> Dr. Stephen A. Cambone, "Transforming the Defense Establishment." 27 January 2003, available from <http://www.defenselink.mil/speeches/2003/sp2000127-0006.html>; internet; accessed 15 September 2003, 8.

<sup>48</sup> Douglas E. Walker, Chief, Weapon System Initiative Division, "DLA's Role in Service's Performance Based Logistics Initiative for Weapon Systems, briefing slides with scripted commentary, Fort Belvoir, VA. 3 December 2003, 4.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid., 4.

<sup>51</sup> Ibid., 11.

<sup>52</sup> Ibid., 4

<sup>53</sup> Ibid., 5.

<sup>54</sup> Ibid.

<sup>55</sup> Ibid., 7.

<sup>56</sup> Larry Glasco, Executive Director Readiness and Customer Support, DLA/J-4. "DSCR PBL Engagement Review," briefing, Fort Belvoir, VA., 31 October 2003.

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<sup>58</sup> Ibid., 3.

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<sup>60</sup> Ibid., 4.

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<sup>63</sup> Ibid.15

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