



# Performance Based Logistics

## For Achieving Affordable Readiness

*Betsy Lederer ■ Knob Moses*

In February 2014, the Secretary of Defense announced a plan to shrink the Pentagon’s budget by more than \$75 billion over the next two years. Secretary Chuck Hagel said these cuts would come by reducing manpower without degrading training or readiness. In order to help achieve these aggressive goals, there has been an increased focus on greater efficiency and productivity. This is reflected in the April 24, 2013, memorandum from Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]) Frank Kendall, “Implementing Directive for Better Buying Power 2.0—Achieving Greater Efficiency and Productivity in Defense Spending.” As part of a broad range of initiatives, Kendall’s BBP 2.0 memorandum promotes Performance Based Logistics (PBL) as one tool for achieving the Department of Defense (DoD) goal of affordable readiness. Using an outcome-based sustainment strategy, PBL offers a well-tested contribution to meeting the DoD’s budgetary challenges.

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PBL works by incentivizing desired outcomes across the product life cycle, from design through sustainment to retirement. In a PBL product support arrangement—which rewards the achievement of performance results—a support provider is incentivized to reduce the number of unscheduled maintenance and repairs as well as the cost of the parts and labor used in the repair process. This improves availability at lower cost. Under a traditional transactional product support model, by which the government purchases parts or maintenance services for repairs, the provider does not receive incentives to improve availability or reduce the need for repairs and repair parts. The opposite is true: In the transactional model, the provider’s revenue increases as equipment failures increase. This model creates a fundamental product support misalignment for DoD, and PBL arrangements address this misalignment. In PBL, commercial providers are incentivized to reduce system downtime and costs because the contract specifies weapon system, subsystem or component performance outcomes—not transactions.

In November 2011, the Office of the Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness (ODASD[L&MR]) completed an analysis of more than 20 PBL arrangements executed over 10 years. The resulting Project “Proof Point” PBL Study noted that annual savings or cost avoidance of between 5 percent and 20 percent are considered possible for properly structured and executed PBL programs. Given a 2014 sustainment budget of approximately \$273.2 billion, the potential savings or avoided costs are not insignificant and have re-energized the focus on more effective use of PBL product support strategies.

### Performance Based Logistics Guidance

In addition to the BBP 2.0 memorandum mentioned above, the Office of the Secretary of Defense (OSD) issued two other applicable guidance documents:

- The Acting ODASD (L&MR) “PBL Comprehensive Guidance” Memorandum of Nov. 22, 2013, amplifies the DoD’s plan to expand the use of PBL arrangements and provides detailed guidance to assist the Military Departments with increasing this effort.
- In collaboration with the Services and the Defense Acquisition University (DAU), ODASD(L&MR) also promulgated the *PBL Guidebook: A Guide to Developing Performance-Based Arrangements* on May 27, 2014. It was designed as a reference manual and how-to guide for both new and experienced PBL practitioners. Because developing PBL contracts is a team effort, the *Guidebook* is intended to be a cross-career field resource and to include practical information for life-cycle logisticians, engineers, business/cost estimators and financial managers, and contracting officers.

### Performance Based Logistics Definition

OSD succinctly defines PBL, and provides guidance regarding characteristics of effective PBL arrangements:

PBL is synonymous with performance-based life-cycle product support, where outcomes are acquired through performance-based arrangements that deliver warfighter requirements and incentivize product support providers to reduce costs through innovation. These arrangements are contracts with industry or intragovernmental agreements.

Attributes of an effective PBL arrangement include:

- Objective, measurable work description that acquires a product support outcome
- Appropriate contract length, terms and funding strategies that encourage delivery of the required outcome
- A manageable number of metrics linked to contract requirements that reflect desired warfighter outcomes and cost-reduction goals
- Incentives to achieve required outcomes and cost-reduction initiatives
- Risks and rewards shared between government and commercial product support integrators and providers
- Synchronization of product support arrangements to satisfy warfighter requirements

### Types of Performance Based Logistics Arrangements

There are many different types of PBL arrangements. They can be established at the system, subsystem or component level and can address anywhere from one to all the 12 Integrated Product Support (IPS) Elements listed below:

- Product Support Management
- Design Interface
- Sustaining Engineering
- Supply Support
- Maintenance Planning and Management
- Packaging, Handling, Storage & Transportation (PHS&T)
- Technical Data
- Support Equipment
- Training and Training Support
- Manpower and Personnel
- Facilities and Infrastructure
- Computer Resources

Also, it is important to know that a PBL arrangement can be formed with government support providers, such as DoD maintenance Depots, which are facilitated by the use of intergovernmental Memorandums of Agreement (MOA) or Memorandums of Understanding (MOU), while others are with industry and implemented via various types of contracts. Many, however, are a mix of both organic and industry support providers, in constructs specific to each program’s performance requirements.

The PBL arrangement level and IPS elements selection can be adjusted in scope, based on the program’s performance requirements. For instance, a system failing to meet performance requirements because certain parts are unavailable should consider a PBL arrangement focused on supply support. Similarly, a system facing significant issues with parts

reliability should implement a PBL that includes reliability improvement and sustaining engineering activities. Tying the root causes of performance deficiencies with the appropriate PBL arrangement type is crucial to a successful outcome.

### **Hurdles to Adoption**

Despite DoD policy requiring that programs “employ effective Performance Based Logistics planning, development, implementation and management in developing a system’s product support arrangements” (Interim DoDI 5000.02, November 2013), research indicates that the number of PBL contracts actually declined over the last few years. While the exact number of PBL arrangements is difficult to measure, research indicates that less than 5 percent of DoD systems, subsystems and components currently are covered by a PBL arrangement.

If they are required and can be so effective, why has the number declined? And, given the savings potential, what can be done to increase their use?

The DoD recognizes that PBL implementation can be a challenge. PBL contracts can be complex and often take a long time to implement. They also require teams who have an in-depth understanding of the PBL implementation process and who share performance goals and agree to focus resources on those common goals. The teams also need a solid grasp of Title 10 United States Code (U.S.C.) requirements related to the use of organic depots, as stated in statute 10 U.S.C. 2460, and insight into what motivates industry. But there is good news: Help is here, and more is in the works.

Let’s start by looking at three common challenges to implementing PBL arrangements followed by information on resources and available tools and on future efforts.

Common challenges to increasing the effective use of PBL include:

#### **Organizational Structure and Funding Sources**

As stated above, establishing a PBL contract requires a broad-based team approach, and involves multiple stakeholders and subject-matter experts (SMEs) working within an Integrated Product Team (IPT). The warfighter, program manager (PM), product support manager (PSM), engineering,

finance, contracting and other government representatives are required to coordinate and collaborate with each other and with both government and industry support providers to develop and implement a sound outcome-based product support strategy.

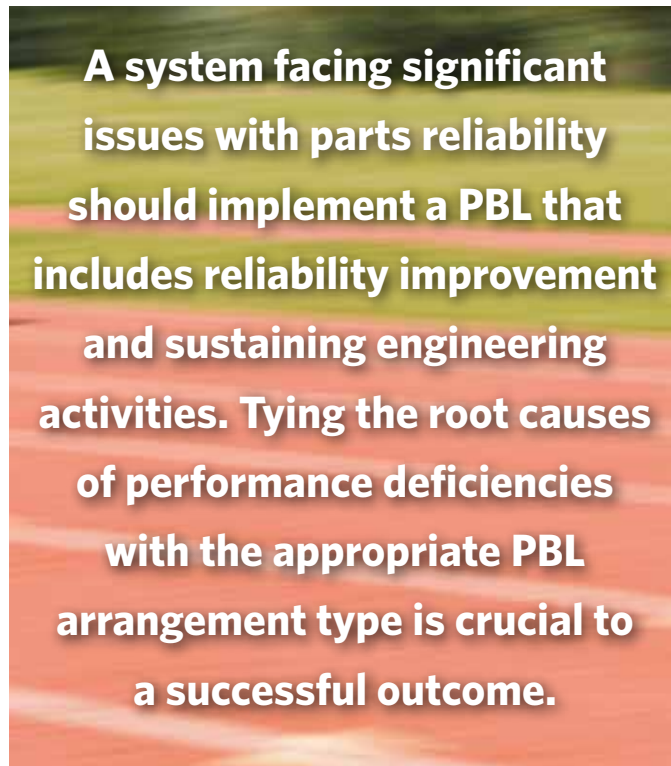
Within these IPTs, however, there usually is a mixture of goals and separate sources of funding, stemming from the aims of each participant’s separate organizational hierarchy. The warfighter representative typically “owns” the Operations and Maintenance (O&M) funds and supports demanding and dynamic global operational requirements. The PM—who has Total Life Cycle Systems Management (TLCSM) accountability—may have research and development (R&D) and procurement (not O&M) appropriations in his acquisition checkbook. There is the PSM, who serves as the PM’s representative and lead in the product support management IPT and who usually has access to the PM’s acquisition checkbook but very little influence on sustainment funds. Then there are the de-

pots and inventory control points (ICPs) that manage working capital funds (WCF), which are “revolving”-type funds often used to facilitate long-term PBL contracts. The warfighter, PM and PSM usually have little control of DWCF. Add the possibility of joint Service or enterprise-level PBL efforts, and the organizational complexity increases exponentially. This mixture means that developing an executable life-cycle solution becomes a demanding process that requires a mature ability to make trade-offs and compromises.

Putting a PBL contract in place is a team exercise, and requires alignment of requirements and resources. The team should leave “stovepipe” or segmented thinking at the door and take a holistic approach. The new team mantra should be “Let’s be good stewards of the whole versus the defenders of ‘my’ portion.”

#### **System Support Requirements Definition With Analytical Rigor**

Defining support requirements and securing agreement on them across the IPT are challenging and important to the success of PBL efforts. While the top-level Sustainment Key Performance Parameter (KPP) and other associated Key System Attributes (KSA) are captured, for example, in the Capability Development



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Document (CDD) and Capability Production Document (CPD), lower-level system support requirements and metrics need to be addressed in PBL arrangements. These lower-level metrics are based on both operational requirements and an in-depth understanding of system, subsystem and component performance capabilities and support challenges. This requires the PSM to work with the warfighter and sustainment organizations to address the predicted future operational tempo—as well as associated equipment and inventory optimization analyses, including the financial impact. These, in turn, require insight into performance data that may or may not be available within the government, depending on the equipment type and the program's Intellectual Property (IP) strategy.

This challenge of accessing data often contributes to a quick-fix mentality addressing the symptoms of a problem rather than developing a root-cause cure. For example, equipment performance problems often are solved by buying more spare parts and repairs, rather than identifying—and fixing—the problem with the equipment itself. Successful adoption of PBL contracts requires a strategic problem-solving approach, pushing the IPT (including industry) to work together toward proactive and long-lasting sustainment solutions.

### **PBL Expertise**

Knowledge and experience with PBL arrangements are critical to their success, but many Defense acquisition professionals have little experience with PBL because transactional sustainment is the predominant methodology used today. As discussed above, PBL contracts demand sophistication and teamwork above and beyond what is required in the status quo transactional model. As with the support requirements definition challenge, the acquisition workforce challenge will require a shift in focus and expansion of skillsets to facilitate the more wholesale adoption of the PBL business model and associated processes.

The current environment has not been conducive to creating a large number of experienced PBL specialists. Training, and increasing focus on practical PBL “how to” information, plus an increase in experiential learning opportunities, are needed to produce the level of workforce improvements required.

### **Leading Practices**

The good news is that the DoD is facing the obstacles head on. Per the ODASD(L&MR) “PBL Comprehensive Guidance” memorandum, OSD is committed to addressing PBL challenges with the following ongoing initiatives and actions:

- Cultivate an enabling, collaborative environment including more component acquisition executives (CAEs) communication with the workforce, and PBL efforts in milestone reporting and identification of (intended or unintended) policy obstacles.
- Develop documented processes and tools—including use of the processes and tools captured in the newly released *PBL Guidebook*.

- Create a cadre of PBL professionals. This should include assessing gaps in workforce PBL competencies and using this information to change workforce training and DAU learning assets. This initiative also refers to using the comprehensive PBL Community of Practice, designed as an interdisciplinary platform to connect PBL practitioners from across multiple career fields and to provide a knowledge repository for PBL-related material across the DoD. The action encourages pursuit of PBL training through DAU as well as hands-on experience in structuring and executing PBL arrangements.
- PBL Reporting. CAEs are to provide an annual summary of their PBL implementation efforts to the Business Senior Integration Group. This should include the current use of PBL arrangements, savings achieved, lessons learned and future opportunities.

While these efforts are significant, it is understood that they may not be enough to appreciably expand use of this sustainment method and that additional work may be required. But recent comments by Kendall clearly indicate that the DoD is committed to increasing the use of this powerful tool:

The data shows that we have not been able to expand the use of PBL for the last two years and that prior to that the use was declining. Declining budgets as well as the budget uncertainty itself, and therefore contract opportunities, are part of this story, as is the fact the PBL arrangements are harder to structure and enforce than more traditional approaches. Those factors, combined with the imposition of sequestration, furloughs and a government shutdown last year are likely to have suppressed the increased use of PBL. This area will receive additional management attention going forward; we are going to increase the use of this business approach.

Specifics regarding the “additional management attention” have not yet been provided, but, at the August 2014 Armed Forces Communications and Electronics Association Defense Acquisition Modernization Symposium, Kendall did not mince words. Acquisition workforce members need to “understand what they’re doing. And that’s a never-ending process. I think we’re going to grow that body of work continuously—over the next—forever, basically. So that’s here to stay.”

### **Conclusion**

PBL arrangements provide a potent way to help the DoD deliver affordable readiness. Implementing PBL strategies can be a challenge, but there are increasing resources to help build successful PBL contracts—and more to follow, if necessary. It is an effort used in the DoD for some time, but, due to our constrained budget environment, it has received renewed focus in BBP 2.0 and is likely to be addressed in BBP 3.0 as well. Make no mistake, however: This is not just a rehash of an old topic; the DoD’s commitment to communicate, educate and improve our level of PBL expertise is reborn and is very, very real. 📢

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