

Performance-Based Logistics

Only Part of the Answer to Controlling Costs
While Improving DoD Performance

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In order to make real measurable changes in Operations and Support (O&S) costs, more is needed than point solutions such as Performance-Based Logistics (PBLs). The Department of Defense (DoD) must take a step back to structurally address how it designs support concepts for all weapon systems by looking to Principle Driven Sustainment Models and Portfolio Management concepts from the commercial world to realize true step-change improvement and meet today's budget realities.

For the better part of the past decade, PBLs have been the preferred support concept of the DoD. PBLs with their promise of improving performance while simultaneously reducing costs and shifting risk to the contractors were seen as solving the magical trifecta required to address the always looming problem of rising O&S costs. However, even today, PBLs remain a hotly contested topic with strong supporters and foes in both government and industry.

Most of the disagreement centers on answers to two main questions: (1) do PBLs in fact deliver improved performance at a reasonable cost; and (2) without cost transparency, is the government getting a fair deal? There certainly is a wide body of evidence to credibly argue both sides of

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these questions. However—given the findings from recent DoD-sponsored studies (i.e., Project Proof Point), the acknowledgment that effective Service-level contracting occurs regularly in the commercial world, and that the move from a transaction-focused to an incentivize-focused outcome makes intuitive sense—it is fair to accept that well-written PBLs do in fact deliver on their promises. Our work across the DoD has shown firsthand the good and the bad, the successes and the failures of PBLs. And while there are numerous lessons to be shared, our main takeaway is that PBLs alone simply will not cure what ails the DoD.

Today, within the constraints defined by the Services, each program makes its own decisions about whether government or contractor resources will be responsible for its maintenance and how it will be executed. With this approach, each program manager (PM) must navigate political, technical, legal, and

PDSMs are defined as a limited number of business models for PMs to select from that embody an optimized DoD Enterprise support strategy. By limiting the number of sustainment business models and providing sufficient variation across the menu to meet unique user requirements, the DoD can emulate strategies executed by large commercial organizations to tame complexity and optimize performance. First principles are used to avoid the whims of changing political, operational and budgetary environments and therefore provide stability across the life of the program. Further, we recognize that the DoD Enterprise must be optimized across both the government and commercial industrial base. A system that is commercial off-the-shelf technology, with a limited life cycle (First Principles) is probably best maintained by the commercial industrial base, while a highly engineered, military specific product, long life-cycle weapon system probably is best maintained with a government-led, partnered team.



operational challenges to arrive at a program-optimized strategy that may or may not align to enterprise-level objectives.

Typically, decision making is done inside program silos without consideration of potential leverage points across multiple programs. Numerous examples can be listed of similar platforms—including aircraft, ships, trucks, and other weapon-systems—evolving to completely unique end-states. A great example of this is supply-chain management across the fighter aircraft fleet. Currently, government-led supply-chain management is performed for the F-16, while the prime contractor runs the supply chain for the F-22 and a third, completely different prime-run supply chain is planned for the F-35. In each case, the same prime contractor is involved. Provided the similarities in these programs, this obviously is a suboptimal strategy for the Air Force enterprise as a whole that results in excessive costs in multiple IT systems, warehousing, supply chain managers, shipping costs, and other management expenses.

Many Fortune 500 companies recognized and solved this same problem in their businesses over the past two decades by adopting Principle-Driven Sustainment Models (PDSMs).

Adoption of PDSMs across the DoD would result in significant cost savings by reducing redundancy, providing consistent, clear direction to industry and government about what is expected and needed from each, empowering both to pursue and ultimately achieve truly world-class performance, and enabling true, long-term strategic sustainment planning earlier in the acquisition life cycle.

The second complementary action, Portfolio Management, seeks to align across products, processes, systems, and subsystems to identify points of commonality, economies of scale, and leverage to define a management approach that takes advantage of untapped synergies. Today's "every program for itself" management philosophy is simply too expensive in austere times.

One of the many lessons the auto industry had to learn in the 1980s and '90s was how to adopt Portfolio Management concepts to vehicle design, production, and servicing. Prior to that time, every car team did its own thing. Today commonality, reuse, and waste elimination are second nature. Unfortunately, when it comes to program management, the

DoD still is largely in the '90s where every program determines its own destiny. Sure, program executive officers (PEOs) and their staffs are in place to serve as the single points of accountability and ideally standardize across programs where possible. But real barriers (e.g., security, funding limitations, chains of command, to name but a few) exist to doing this on an effective commercial scale. In our view, these barriers can be overcome by the existing, compelling business case.

Portfolios can be defined in a number of ways. For example, the DoD could think of a portfolio as similar programs and products, such as all wheeled and tracked vehicles. This portfolio could better leverage the depot network infrastructure for reset and modernization, thus improving utilization of the depots and contractor facilities, reducing redundancies, and significantly reducing costs. Another way to define portfolios is by prime contractors. Were the largest primes able to manage their programs as portfolios rather than individual programs, costs could be saved through overhead cuts, technology and process leverage across programs, contracting, and other sources. Finally, defining portfolios by subsystems, such as ship air-conditioning units, could result in significant cost savings. Focusing initial development and modernization around a standard set of air-conditioning units could produce savings through purchasing and engineering economies of

scale, maintenance training, inventory and supply chain management, and ongoing subsystem maintenance.

In terms of an analogy, it helps to think of a football team. Imagine DoD programs as the "players," PBLs being the "personal trainers" to drive the best results for the individual players, PDSMs as being the "playbook" on how to manage the game, and Portfolio Management being the "coach" that seeks to optimize performance across all players by achieving more than the sum of the parts. While well-written PBLs may optimize the individual players, you need to have a strong playbook and coach to win. Just like football, the government and commercial team need to work together to win.

PBLs have had plenty of time to prove (or disprove) themselves. And while the facts suggest that, when done right, they can help an individual program, the lack of widespread adoption (fewer than 90 active across DoD) and decisiveness of the topic itself point to more being needed. Success in business often is about knowing when to lead and when to be a fast follower. In the case of driving down O&S costs, it is time for the DoD to be a fast follower and implement new structural changes. 

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