

Why is Enterprise Sustainment Critical?

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Enterprise Sustainment places common components used by multiple weapon systems under a single contract to:

- Target affordability and control cost growth
- Preserve and/or improve warfighter readiness
- Incentivize productivity and innovation
- Reduce non-value-added processes
- Secure better buying power
- Improve productivity
- Reward efficient sustainment management

Enterprise model - do more with less

Component Management:

- Supply chain (economies of scale, long term agreements, etc)
- Requisition processing
- Warehousing/tracking

Inventory Strengths:

- Central consignment from integrated inventory
- Best price approach to consumables
- Joint approach to historical data/forecast for baseline

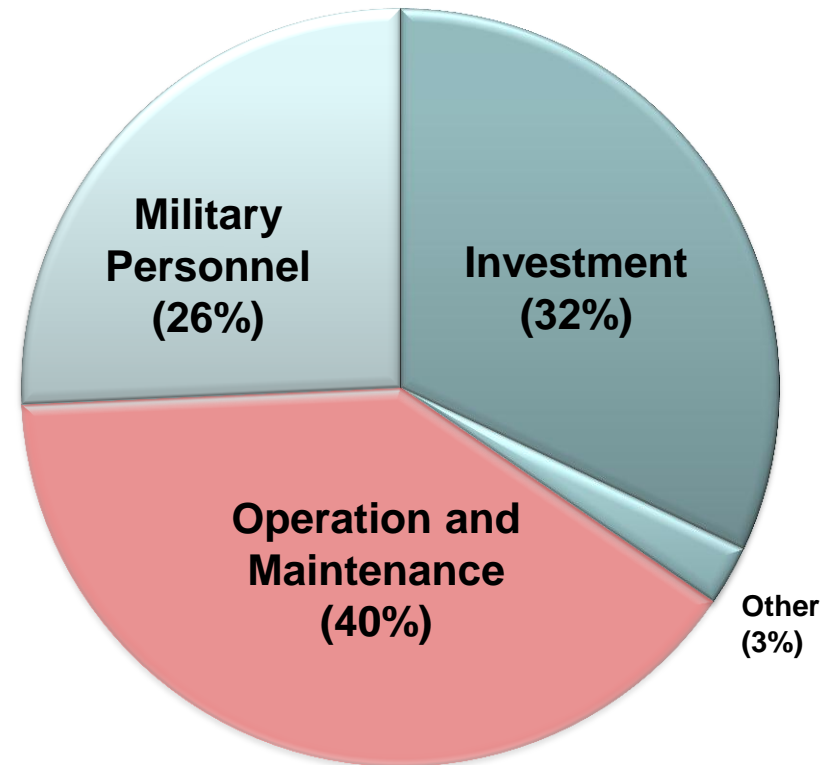
Manufacturing Approaches:

- Leverage contractor expertise into manufacturing process
- Engineering change proposals
- Technical resolutions

Defense budgets are declining

- Less-costly options will beat high performance solutions
- Affordability is as important as performance
- U.S. DoD “better buying power” requires cost savings
- Pending Sequestration is another \$55 B a year

DoD Base Budget by Account



*DoD FY 13 Budget, Table 8-1. DoD Base Budget by Appropriation Title
Investment is Procurement and RDTE*



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FEB 16 2011


MEMORANDUM FOR PRINCIPAL DEPUTY ASSISTANT SECRETARY OF DEFENSE
(LOGISTICS & MATERIEL READINESS)

SUBJECT: Performance Based Logistics (PBL) Pilot for Defense Logistics Agency (DLA)

On December 13, 2010, representatives from DLA and Honeywell met to discuss the potential for a single PBL agreement to combine requirements for Auxiliary Power Units (APUs) across the Services. Currently, the Army, Navy, and Air Force use Honeywell APUs but contract separately for repair. The result is multiple contracts, multiple contracting approaches, and multiple business rules. Honeywell contends, and DLA agrees, a single PBL contract to support APUs across the Services would rationalize the business structure and allow for the exploitation of economies of scale and scope while yielding significant savings. A single contract would garner improvements to logistical performance, including improvements to component reliability. Further savings are possible if DLA were to construct this as a contract allowing for other Honeywell components to be added incrementally (e.g., aircraft wheels and brakes, CH-47 engines, Abrams Tank engines, etc.).

If these inferences are validated, single, vice multiple, PBL contracts have potential to increase materiel availability and reliability, reduce Operating and Support costs, and return money to the Department for reinvestment. Logically, these savings and benefits would apply to any component or family of components managed by two or more Services. Given the potential this business model offers, DLA requests approval to pursue an APU PBL initiative with Honeywell. OSD sponsorship would facilitate the cross-Service data collection required to conduct a Business Case Analysis (BCA) to determine the potential savings. If the BCA demonstrates a single PBL is the optimal solution it would facilitate acquisition planning. Sponsorship would also provide DLA with the necessary authority to manage these items and to construct the required Depot Level Repairable repair contract to facilitate a PBL.

If approved, DLA is committed to pursue this pilot program, and potentially others, to validate the benefits of a cross-Service PBL business model. From our initial discussions, we see this as a great potential to deliver better value to the taxpayer and the Warfighter.



A. S. THOMPSON
Vice Admiral, SC, USN
Director

Defense Logistics Agency Request

“...a single PBL contract to support APU across the Services would rationalize the business structure and allow for the exploitation of economies of scale and scope while yielding significant savings”





U.S DoD Enterprise Pilot Program



LOGISTICS AND
MATERIEL READINESS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
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WASHINGTON, DC 20301-3500

MAR 9 2011


MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Performance-Based Logistics (PBL) Pilot for Defense Logistics Agency (DLA)

In response to your memorandum of February 16, 2011, I endorse DLA's investigation of enterprise PBLs in order to deliver better value to the warfighter and taxpayer consistent with Secretary Gates' comments to pursue efficiencies in the way we do business. Specifically, DLA's requested PBL Pilot for Auxiliary Power Units (APUs) and other Honeywell components, as well as the T-700 initiative put forward by the Logistics Efficiency Team, show much promise.

This office supports DLA's engagement with each of the Services in order to collect the data necessary for a Business Case Analysis (BCA), as well as acquisition planning and fact finding. If the results of the BCA and acquisition planning validate improvements to logistical support while, at the same time, yielding reductions in Operating and Support (O&S) costs for APUs and other end-items or components, L&MR will assist DLA and the Services in determining the best way to consolidate requirements and execute across DoD.

The inherent logic of the business case premise as put forward by DLA has merit. If the inferences of an Enterprise PBL approach are validated, this would represent a business model that reduces cost while increasing performance. I look forward to reviewing the results of the BCA. Please plan on briefing the results to the JLB within the next 6-months.


Alan F. Estevez
Principal Deputy

cc:

Assistant Secretary of the Army (Acquisition, Logistics and Technology)
Assistant Secretary of the Navy (Research, Development and Acquisition)
Assistant Secretary of the Air Force (Acquisition)
Assistant Secretary of the Air Force (Installations, Environment and Logistics)
Commander, US Army Materiel Command
Commander, Air Force Materiel Command
Commander, Naval Supply Systems Command
Commandant, Marine Corps Logistics Command
Deputy Chief of Staff of the Army, G4
Deputy Chief of Naval Operations (Fleet Readiness and Logistics), N4
Deputy Chief of Staff for Logistics, Installations, and Mission Support, U.S. Air Force, A4/7
Deputy Commandant, Installations and Logistics, U.S. Marine Corps
Director, Joint Chief of Staff for Logistics, J4

Office of Secretary of Defense Response

"...enterprise PBLs in order to deliver better value to the warfighter and taxpayer is consistent with Secretary Gates comments to pursue efficiencies in the way we do business"

The pending DoD Pilot Program will combine the Enterprise approach with **Performance-Based Logistics (PBL)** contracting:

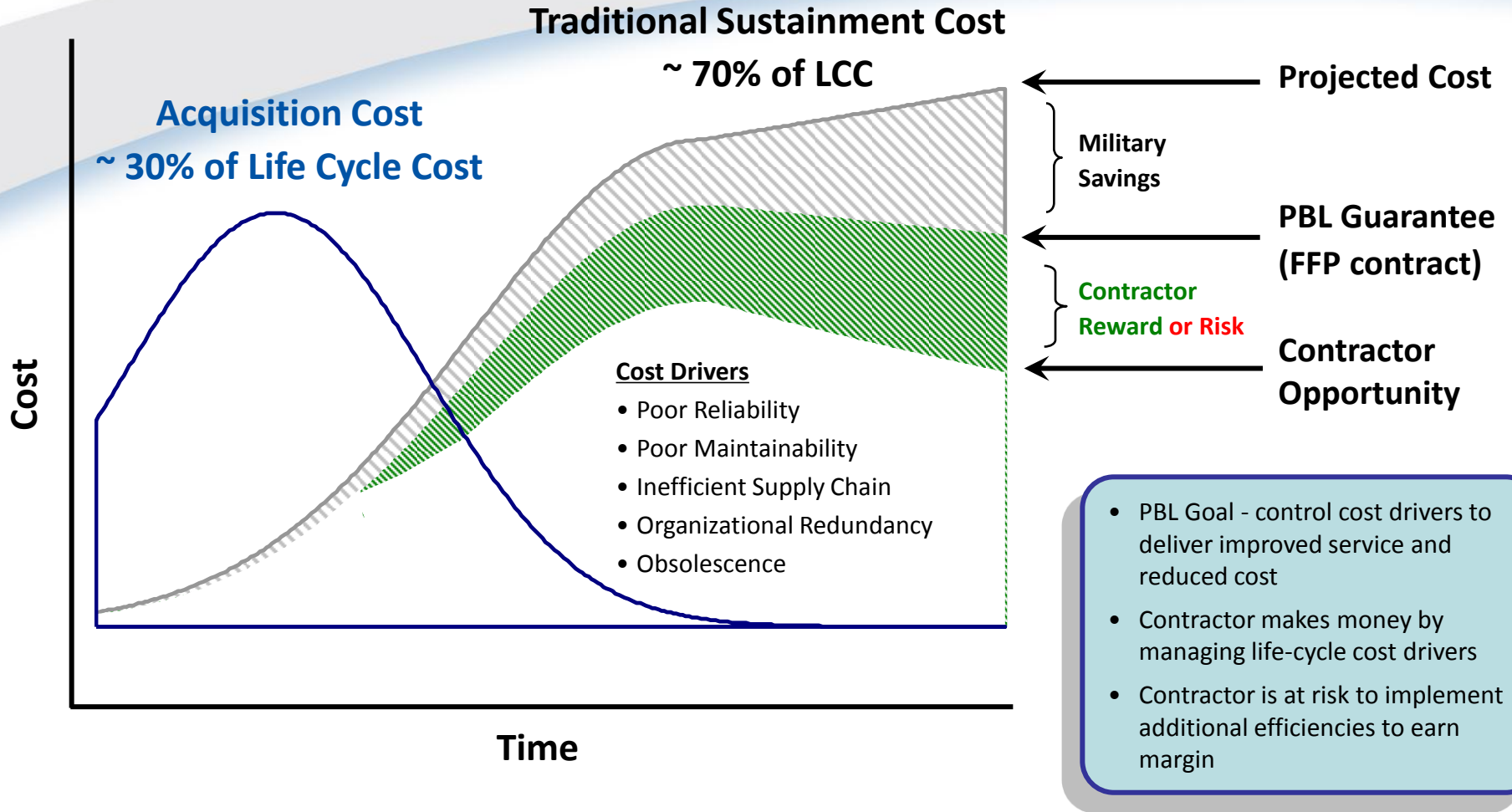
Traditional Support Model

vs.

Performance-Based Logistics

- Time and material contracts
- Contractor paid for parts regardless of impact on warfighter
- Short term (1 to 3 years)
- Cost plus with award fee
- Government owns all risk
- No investment by contractor
- Quantity is better (more \$'s)
- Government responsible for mitigating obsolescence issues

- Focus on warfighter-defined outcomes
- Payment based on specific results (example: availability)
- Long-term contracts (10 years)
- Fixed price with incentive fee
- Contractor manages “shared” risk
- Investments based on return
- Quality is required (efficiencies rewarded)
- Contractor addresses obsolescence challenges during contract period



Price is guaranteed, profit is not



Affordable Defense Logistics

January 2012

Developed By:

Life Cycle Support Subcommittee of the Product
Support Committee
Aerospace Industries Association, Inc.

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“... (Performance-based logistics) have shown improvements in material availability (above 95 percent), world class response times (2-4 days), significant reductions in inventory, and average savings of 16 percent...”

“Despite these proven results, performance-based logistics contracts are not widely or uniformly adopted by the military services.”

“These opportunities come at an inflection point in our history when unprecedented budget pressures, global defense challenges, and commercial logistics opportunities are coming together.”

Despite success, not widely adopted



The proposed Enterprise PBL will place common components used by multiple weapon systems under a single contract with the following:

- 10-year term (5 year base, 5 year option)
- Performance-based metrics to validate actions
- Revenue - per flying hour / per landing
- Commercial-based contract
- Mechanism for adding new components
- Single supply chain
- Implement standard practices
- Leverage manufacturing capabilities

Consistent terms with performance metrics



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
ECS &
Wheel and
Brakes



F-16
Emergency
Power Unit



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



CH-47
T-55
Engine*

Additional Opportunities



P-8A Poseidon
– all HON
Components



KC-767 – all
HON
Components



M1 Abrams
Tank –
AGT1500
Gas Turbine
Engine



FEATURES	EXPECTED RESULTS	HOW
Improved Reliability	Up to 20% fewer repairs and reduced maintenance labor	<ul style="list-style-type: none"> • Hardware improvements • Repair scope management • Engineering Design Authority
Lower Repair Cost	10-15% cost savings per repair	<ul style="list-style-type: none"> • Labor productivity • Repair versus replace
Shorter Logistics Response Time	Customer wait time reduced by 80% and fewer spares required	<ul style="list-style-type: none"> • Integrated Supply Chain • Lean manufacturing
Single Logistics Infrastructure	15-30% related cost savings	<ul style="list-style-type: none"> • Leveraging a larger base over a single infrastructure
Consistent Contract Terms	One way of doing business	<ul style="list-style-type: none"> • 20+ contract vehicles • Manages spares buys

Facilitates greater levels of savings

New Budget Era

- “Cost” will be the evaluative criteria
- Military budgets are declining
- Resource competition between new and legacy systems
- Need to preserve military capability

Integration of Commercial Maintenance Practices:

- Eliminate multiple contracts on common components
- Leverage supply chain, inventory and manufacturing
- Fixed price, long-term arrangements to manage cost risk
- Performance metrics to ensure performance