ASSISTANT SECRETARY OF DEFENSE
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

LOGISTICS AND
MATERIEL READINESS

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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
DEPUTY CHIEF MANAGEMENT OFFICER
DEPARTMENT OF DEFENSE CHIEF INFORMATION OFFICER
DIRECTORS OF THE DEFENSE AGENCIES
AT&L DIRECT REPORTS

SUBJECT: Performance Based Logistics Comprehensive Guidance

References:
(a) Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) memorandum, "Implementing Directive for Better Buying Power 2.0 – Achieving Greater Efficiency and Productivity in Defense Spending," April 24, 2013
(b) Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) memorandum, "Should Cost Management in Defense Acquisition," August 6, 2013
(c) Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) memorandum, "Strengthening Sustainment Governance for Acquisition Program Reviews," April 5, 2010
(d) National Defense Authorization Act for Fiscal Year 2012, Section 832(10)

In accordance with Reference (a), this comprehensive guidance is provided to assist in adopting and expanding the use of Performance Based Logistics (PBL) arrangements for weapon system programs. This memorandum expands on Better Buying Power (BBP) 2.0 guidance to assist the Military Departments with increasing effective use of PBL arrangements. This guidance is effective immediately.

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 inter-governmental 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.

A PBL arrangement does not incentivize the consumption of maintenance labor hours, consumption of parts, or other transactional measurement in a way that is unaligned with the program's (system, subsystem, component) sustainment requirements. The appropriate course of action regarding PBL arrangements is determined through the product support strategy process and appropriate analyses.

For PBL arrangements to be effective, the government must clearly understand the program requirements, cost and technical characteristics, along with associated tradeoffs and alternatives. The Department's experience indicates that certain circumstances lend themselves to successful application of PBL arrangements.

PBL arrangements should be considered in the following circumstances:

- System availability or derivative sub-requirement for subsystem or component is consistently below the required threshold.
- Part demand and/or labor hour requirements have achieved a level of post-fielding stability that supports predictability of future demand to enable consistent pricing.
- Number of potential product support providers is sufficiently large to serve as a competitive market, or leverage exists to structure internal competitive pressure in a limited or sole-source situation.
- Sufficient operational life remains (typically 5-7 years) in the product to be an attractive capital investment opportunity for potential product support integrators and providers.
- Common subsystems or components among platforms and/or Military Departments that, when combined, improve the government's negotiating leverage and offer industry the opportunity to benefit from scale economies.
- Actual sustainment costs exceed lifecycle cost estimates, or should cost management (reference (b)) indicates an opportunity to lower the cost of required performance.

PBL arrangements may <u>not</u> be appropriate in the following circumstances:

- Newly fielded systems that have not yet achieved a level of maturity/design stability (e.g. understood reliability and failure modes/rates) to support predictable parts forecast and/or estimates of maintenance touch time. Transfer of the performance risk to a commercial provider may result in a higher cost to the government.
- When a system is employed in a manner unforeseen by the requiring authority, such as a unique contingency, driving unpredictable support requirements. In this circumstance programs should still consider applying metrics with flexibility to accommodate peacetime and wartime OPTEMPO to better align outcomes with product support requirements.

An effective PBL arrangement tends to have the following indicators:

- Provider's performance consistently achieves the requirements of the arrangement.
- The provider's future performance is predictable to a level of confidence that allows the program to manage risks to readiness and cost in a repeatable way.

- The government gains experience (data) during the period of performance to refine subsequent PBL arrangements for continual productivity improvement and cost reduction.
- Incentives that reward the provider for improved performance based on contractor innovation.

Management and oversight of the development and implementation of PBL arrangements should include assessing the degree to which:

- The arrangement includes the attributes listed in this memorandum.
- The arrangement satisfies the performance and cost specifications, and provides root cause data to diagnose and reduce undesirable variances.

Cultivating an Enabling Environment

Component Acquisition Executives (CAEs), Program Executive Officers (PEOs), and Program Managers (PMs) play key roles in improving the use of PBL arrangements through their communication with the acquisition workforce. CAEs, PEOs, and PMs will emphasize through appropriate communication vehicles the importance of pursuing performance based product support strategies and the beneficial role of PBL arrangements. This communication must draw on the PBL definition listed in this memorandum to promote a common understanding among the acquisition workforce and industry.

Components will continue to provide sustainment quad charts for Defense Acquisition Board and Defense Acquisition Executive Summary reviews per reference (c) and ensure that PMs list specific PBL arrangements, if appropriate, in the product support strategy section of the chart. During the reviews, PMs should discuss the incentives in the arrangement used to achieve the sustainment requirements and operating and support costs. CAEs should encourage similar discussion during Component reviews for programs below ACAT ID.

CAEs and Logistics and Materiel Readiness (L&MR) will review Departmental policy causing barriers (both intended and unintended) to adopting PBL arrangements and take steps to mitigate these barriers or revise policy, as appropriate. If there are constraints to using PBL arrangements when compared to other product support arrangements, the rationale should be determined and corrected where warranted.

Developing Documented Processes and Tools

A barrier to the Department's broader use of PBL arrangements is a lack of repeatable processes, proven tools, and lessons learned for developing PBL arrangements. CAEs and the Defense Acquisition University (DAU) will continue to support L&MR efforts to develop and maintain a PBL Best Practices Guidebook. The guidebook provides process guidance, tools, and guiding tenets to assist programs in structuring effective PBL arrangements.

Components should include metrics-based assessments of the effectiveness of PBL arrangements as part of program sustainment reviews (reference (d)). These assessments should measure the adequacy of PBL arrangements in achieving sustainment requirements and cost goals.

Creating a Cadre of PBL Professionals

Effective PBL arrangements involve more than the expertise and authority of the Life Cycle Logistics functional area. In addition to Life Cycle Logistics, the essential functional areas that programs must engage as they develop, negotiate, deploy, and manage PBL arrangements include:

- Program Management
- Contracting
- Engineering
- Business – Cost Estimating
- Business – Financial Management

The Functional Lead for the Life Cycle Logistics Functional Integrated Product Team will coordinate with the Functional Leads for the other career fields listed and the Component Defense Acquisition Career Managers to assess gaps in competencies essential to PBL arrangement development. The Functional Leads will use the results of this assessment to inform changes to workforce training and DAU learning assets. DAU will maintain a PBL Community of Practice to provide a repository of lessons learned from material generated during PBL implementations across the Department.

CAEs should encourage members of these career fields to pursue PBL training through DAU as part of their continuing education requirements. Hands-on experience in structuring and executing PBL arrangements should complement training to instill proficiency among the cadre of PBL professionals.

CAEs will provide a summary of their PBL implementation efforts to the Business Senior Integration Group (B-SIG) on an annual basis. They should consider including the current use of PBL arrangements, achieved savings, lessons learned and future opportunities. The initial briefing to the B-SIG will be in January 2014.

My point of contact is Mr. Terry Emmert, ODASD(Materiel Readiness), at 703-614-3838 or terence.g.emmert.civ@mail.mil.

Paul D. Peters
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