



# CHAPTER FOUR

## COMPETITION

# Chapter 4 - Competition

## Background

From a global perspective, economic health is the foundation of political stability. As such, it is in the nation's best strategic interest to foster and stimulate economic growth where possible. The Department of Defense's formal policy, therefore, is to rely on the private sector for goods and services where practical and possible. Similarly, the government will not compete with the private sector by performing services and providing products otherwise available. These policies are key considerations for acquisition management within the Department. From the installations management perspective, force reductions have outpaced infrastructure reductions, thereby creating an imbalance in funding priorities. The Competition element of the Defense Reform Initiative, including Competitive and Strategic Sourcing and Depot Maintenance Competition, bridges the acquisition and installations management core processes and is a key component to near-term efficiency and cost savings (absent additional base closure rounds).

## Initiatives

There are currently two initiatives under Competition, which will be explained in greater detail in the following pages:

4.01 Streamlining and Saving Through Competitive and Strategic Sourcing, which will ensure that needed mission support functions will be obtained in the most efficient, cost-effective means possible;

4.02 Streamlining and Saving Through Depot Maintenance Competition, where the best practices of industry push industrial advances within DoD on both a competitive and shared-risk basis.



# Chapter 4 - Competition

- **Background**

- National policy to secure goods/services from private sector
- Force reductions outpacing infrastructure reductions
- Competition presents best post-BRAC efficiency opportunity

- **Initiatives**

- Streamlining and Saving Through Competitive and Strategic Sourcing: Ensures that mission support functions are obtained at “best” price
- Streamlining and Saving Through Depot Maintenance Competition: Invites private industry best practices and technology enhancements

## **Chapter 4 - Competition**

### **Performance Measures**

Ideally, the Competition Initiatives are measured in terms of dollar savings. Initiative 4.01 is also measured in terms of positions reviewed under the auspices of either Competitive or Strategic Sourcing programs. While the methods by which dollar savings are computed may be hotly debated, the use of savings as a performance measure drives directly to the overarching goal of the enterprise governing efficiency of operations.

Existing performance measures for the Competition Initiatives generally prescribe desired outcomes, as opposed to tracking actual savings achieved through the specific programs. If, in fact, these are to be performance metrics, the incorporation of actual performance data would add significant credibility to these measures. In addition, the Depot Maintenance Competition Initiative is severely limited in scope in the overall Department enterprise. In fact, there are no plans to compete any depot maintenance workload on a public versus private basis, except for the workloads of the now-privatized San Antonio and Sacramento Air Logistics Centers (ALCs), which were impacted by BRAC '95. Accordingly, the existing metric is limited solely to demonstrating projected savings associated with this finite workload from the two former ALCs. As a result of discussions with the initiative coordinator for Depot Maintenance Competition, a more overarching metric for depot maintenance was identified for possible use within the DRI. This new metric, Unfunded Depot Maintenance Requirements, is discussed in greater detail in that section.

### **Recommendation**

Specific recommendations are made as they relate to each initiative. One overarching recommendation for the initiatives in this chapter is that initiative leads and owners focus on output-related measures, such as actual studies completed, and, more important, on outcome-oriented measures, such as actual process savings as a result of studies.



# Chapter 4 - Competition

- **Performance Measures**
  - Goal: Quantify savings as a result of competition
    - Measure: Ideally measured in dollar savings
    - Measure: Also measured in number of positions reviewed
- **Recommendation**
  - Focus on actual studies conducted and dollar savings in addition to planned studies and budgeted reductions

# Initiative 4.01 - Streamlining and Saving Through Competitive and Strategic Sourcing

## Background

The Director, Competitive Sourcing and Privatization, Office of the Deputy Undersecretary of Defense (Installations) [DUSD(I) (CS&P)] is responsible for the Competitive and Strategic Sourcing Initiative. Competitive and Strategic Sourcing is a component of the Installation Management core process. Outsourcing of eligible functions supports the Department's effort to reach operational efficiencies. There are several desired outcomes for this initiative. The Department has established goals for Competitive and Strategic Sourcing of \$11.7B in savings and 244,000 positions studied by the end of FY 2005. Competitive Sourcing will be accomplished through the A-76 process. Although not completely defined at the time this report was written, the Strategic Sourcing process will involve the use of procedures such as activity-based costing and/or business process redesign/reengineering to identify opportunities to eliminate, consolidate, reorganize, or privatize in order to gain process efficiency. As of the end of the second quarter, FY 2000, the Department is achieving its goals in terms of input measures: studies projected. DRID #20, *Review of Inherently Governmental Functions*, directed that DoD's Commercial Activities Inventory be structured to determine which DoD positions were inherently governmental, which were commercial activities exempt from competition, and which were commercial activities subject to competition. The inventory is now complete, and positions categorized as commercial activities subject to competition now constitute positions planned for study by the Department. It is noted that while inherently governmental, or core, positions as well as commercial activities exempt from study are excluded from consideration under Competitive Sourcing, they are viable candidates for efficiency improvements under Strategic Sourcing efforts.

## Approach

The project team investigated all current publicly available information to augment their existing background expertise in Federal outsourcing programs. Extensive interviews were then held with the initiative lead and team to gain a direct understanding of underlying goals and currently available information/data that could be used in developing performance measures and scorecards. Following data assessment and review of measures external to DRI, the team developed proposed performance measures and presented them to the initiative lead. Following acceptance of new metrics, scorecards were developed to aptly portray DoD performance within the new metrics.



# 4.01 - Streamlining and Saving Through Competitive and Strategic Sourcing

- **Background**
  - Competitive and Strategic Sourcing to save \$11.7B
  - Competitive and Strategic Sourcing to study 244,000 positions
  - Competitive Sourcing to use OMB Circular A-76 process
  - Strategic Sourcing will seek opportunities for process efficiency through elimination, consolidation, reorganization, or privatization, by using procedures such as ABC and/or BPR
- **Approach**
  - Conducted data/information research
  - In-depth interviews with initiative lead and team
  - Joint development of metrics/scorecards

# **Initiative 4.01 - Streamlining and Saving Through Competitive and Strategic Sourcing**

## **Performance Measures**

At the outset of this project, the primary focus of this initiative was the conduct of A-76 studies. The primary measure, “number of positions subject to A-76 study,” was consistent with the original goal to subject 229,000 DoD positions to A-76 competitions by FY 2005. A second measure related to the achievement of \$11.2 billion projected savings from Competitive Sourcing. The first measure is clearly an input measure: positions are identified for study. The second measure, infrastructure cost savings, is an outcome measure. There was some discussion concerning the capability of existing IT systems to accurately capture these savings, thereby verifying the actual outcome. During the course of this project, DoD decided to expand its efforts beyond the use of A-76 to include “Strategic Sourcing” to achieve infrastructure cost savings. Current metrics for Competitive and Strategic Sourcing include “positions evaluated under Competitive and Strategic Sourcing” and “dollar savings from Competitive and Strategic Sourcing studies.” These measures are reflected in the scorecards that accompany this section of the report. The first measure is an activity metric that measures positions under study and targeted for study. The second measure, dollar savings from Competitive and Strategic Sourcing studies, is an outcome metric, measuring the result of the actions following the studies. The challenge is to ensure that there is a reliable system to accurately measure, collect, validate, analyze and report those savings with a sufficient degree of integrity to allow DoD leadership to make appropriate management decisions related to further infrastructure management.

## **Recommendations**

The adoption of the newly developed measures discussed above will provide an indicator of potential outcome and actual outcome with which to assess the impact of this initiative. However, as stated previously, there must be a reliable system in place to accurately measure, collect, validate, analyze, and report those savings with a sufficient degree of integrity. It is recommended that the initiative owner conduct thorough collection planning activities to ensure that this system is in place before this information is considered accurate and reliable.



# 4.01 - Streamlining and Saving Through Competitive and Strategic Sourcing

- **Performance Measures**
  - Originally oriented toward A-76 studies
    - Positions subject to study under Competitive Sourcing
    - Dollar savings from Competitive Sourcing studies
  - Now encompass both Competitive and Strategic Sourcing
    - Positions evaluated - ongoing and projected
    - Dollar savings from Competitive and Strategic Sourcing studies
- **Recommendation**
  - Conduct thorough collection planning activities to ensure that a reliable system is in place to measure, collect, validate, analyze, and report accurate information to DoD leadership

## Initiative 4.01 - Streamlining and Saving Through Competitive and Strategic Sourcing

**Goal:** Subject 244,000 DoD Positions to Competitive and Strategic Sourcing by FY 2005; cumulative savings target of \$11.7B and projected annual recurring savings of \$3.5B

**Performance Measure:** Number of positions under or planned for Competitive and Strategic Sourcing studies

	Cumulative Numbers									
	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>GOAL</u> <u>FY 05</u>
Under Study	27,378	39,493	55,779	122,000						
Planned for Study					180,000	219,000	232,000	239,000	242,000	244,000

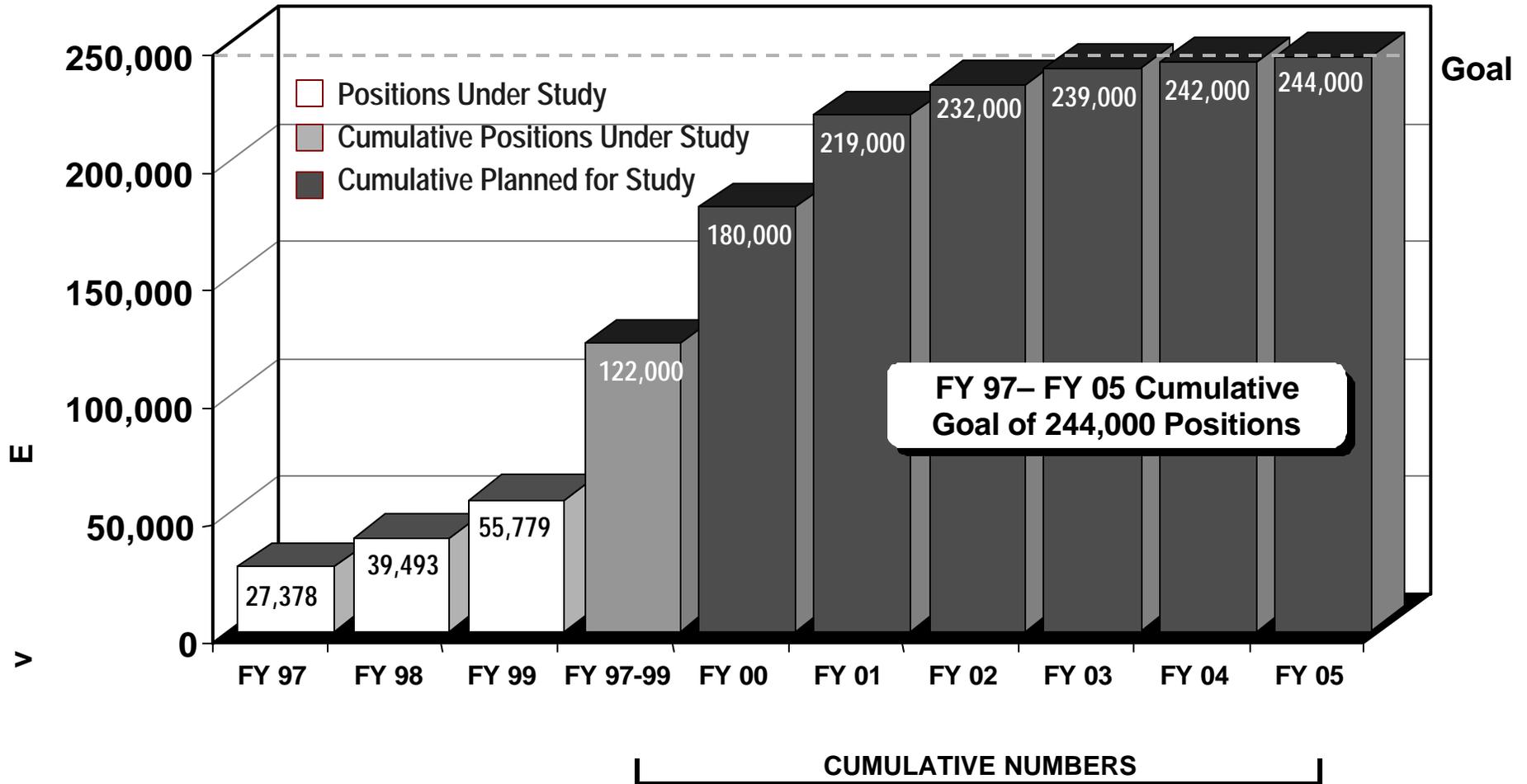
**Source:** ODUSD (Installations) (in accordance with FY 2001 President's Budget submittal)

**Organization, Systems, and Other Issues:** Data/information must be accurate and reliable: thorough collection planning activities will support this effort.



# Achieve Savings, Reductions, and Performance Improvement Through Competitive and Strategic Sourcing

*DoD Civilian Positions Under Competitive and Strategic Sourcing*



## Initiative 4.01 - Streamlining and Saving Through Competitive and Strategic Sourcing

**Goal:** Subject 244,000 DoD Positions to Competitive and Strategic Sourcing by FY 2005; cumulative savings target of \$11.7B and projected annual recurring savings of \$3.5B

**Performance Measure:** Annual dollar savings (in billions) from competitive and strategic sourcing

	<u>Annual dollar savings (in billions)</u>								<b>GOAL</b>
	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>
<b>Actual Savings (\$billions)</b>	0	0	0	.341					
<b>Projected Savings (\$billions)</b>					.865	1.576	2.406	3.117	3.466

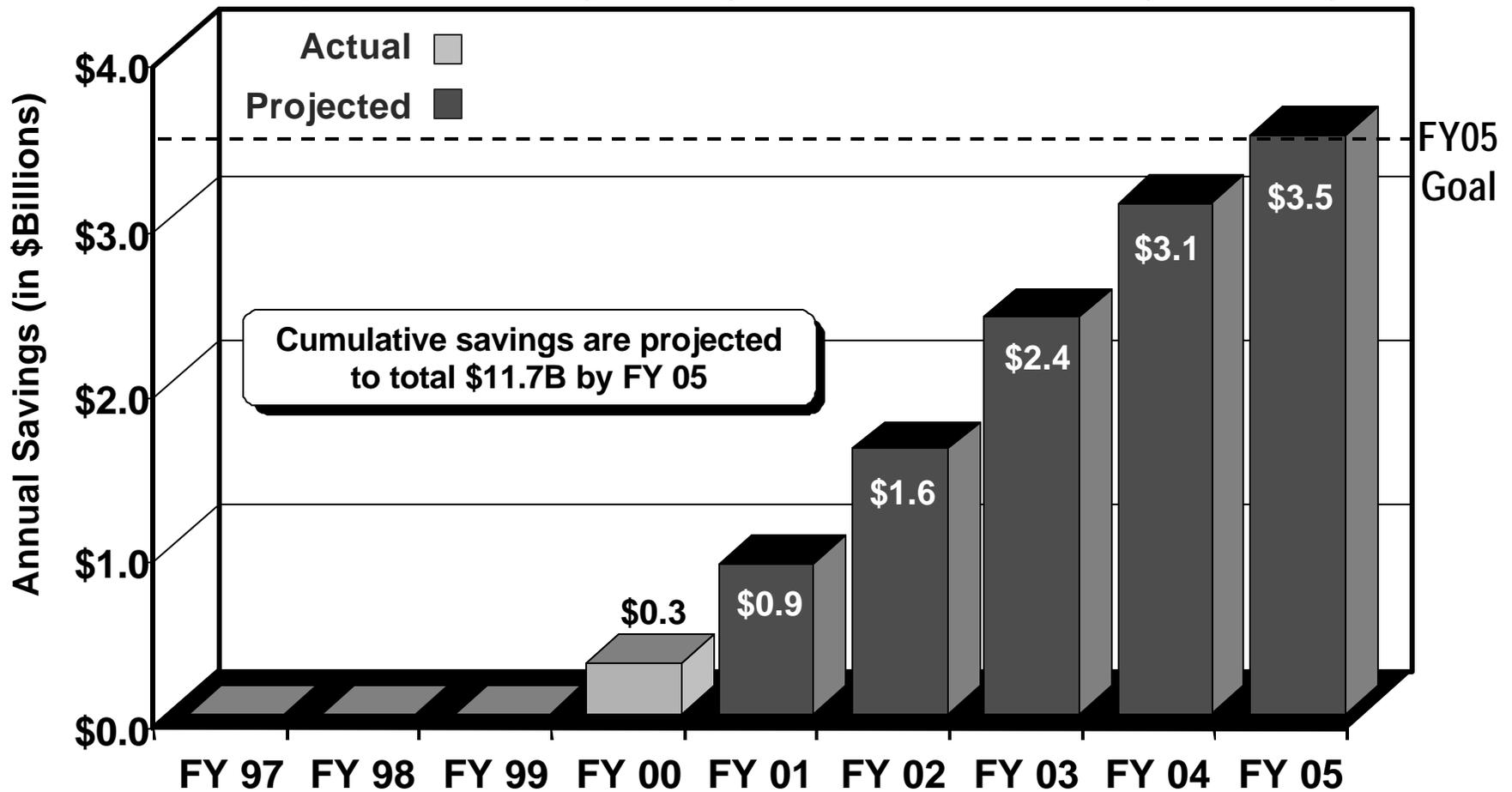
**Source:** ODUSD(Installations) (in accordance with FY 2001 President's Budget submittal)

**Organization, Systems and Other Issues:** Data/information must be accurate and reliable; thorough collection planning activities will support this effort.



# Achieve Savings & Reductions Through Competitive and Strategic Sourcing

*Projected DoD Savings Through Competitive and Strategic Sourcing*



# **Initiative 4.02 - Streamlining and Saving Through Competition for Depot Maintenance**

## **Background**

The Office of the Assistant Deputy Undersecretary of Defense (Maintenance Policy, Programs, and Resources) [OADUSD(MPP&R)] is the initiative owner for the Depot Maintenance Competition Initiative. The specific goal statement applicable to this initiative is "to streamline and save through competition for depot maintenance." The basic premise of the initiative is that creating a competitive process for the execution of depot maintenance work will lower the ultimate price paid, because of competition for obtaining the work. Such competitive pressure will ultimately refine work processes and/or introduce technological improvements in the form of equipment, machinery, or materials. This initiative is being exclusively implemented by the Air Force, using work previously performed by the Sacramento and San Antonio Air Logistics Centers for public, public vs. private, or public-private partnership competition. These two depots, slated for privatization-in-place by BRAC '95, are presently transitioning workloads, and performance data to support originally projected savings are not as yet available.

## **Approach**

The project team investigated all current publicly available information to augment their existing background expertise in Federal outsourcing programs. Extensive interviews were then held with the initiative lead to gain a direct understanding of the underlying goals and currently available information/data that could be used in developing performance measures and scorecards. Following data assessment and review of measures external to DRI, the team developed proposed performance measures and presented them to the initiative lead. Following initiative lead acceptance of new metrics, scorecards were developed to aptly portray DoD performance within the new metrics.



# Streamlining and Saving Through Competition for Depot Maintenance

- **Background**
  - Streamline and save through competition
  - Workload of two former USAF depots
- **Approach**
  - Research data and other existing information
  - Discussions with initiative lead
  - Measures and scorecard developed

## **Initiative 4.02 - Streamlining and Saving Through Competition for Depot Maintenance**

### **Measures**

The Air Force is presently gauging the effectiveness of Depot Maintenance Competition by comparing the pre-BRAC steady-state predicted cost of depot maintenance work with the expected life cycle contract costs resulting from the competition. The total cost benefits from the three resulting business areas are displayed as projected cost savings through FY 2013. No actual savings data from the competed work is available for use at this time.

Another metric involving depot maintenance was considered. The metric, Unfunded Depot Maintenance Requirements, relates to this initiative, but it was decided to present the discussion of that metric separately following this initiative .

### **Recommendations**

According to discussions with the initiative lead, the Army and Navy have no Depot Maintenance Competitions scheduled in the foreseeable future. The availability of workload for competition by the Air Force was predicated upon BRAC actions, which are now complete. No new BRAC rounds are scheduled as of this point in time. In view of the very limited scope of the existing competed depot maintenance workload, the value of this metric as an overarching pillar of the enterprise is questionable. No other viable metrics for Depot Maintenance Competition were identified by the team during this review. Therefore, it is recommended that the actual achievement of savings associated with the Air Force workload be monitored as a means of tracking actual performance versus projected savings in this area. This information can serve as a lesson learned from this approach to infrastructure reduction.



# Streamlining and Saving Through Competition for Depot Maintenance

- **Performance Measure**
  - Currently comparing pre-BRAC maintenance costs with competition-related costs to derive projected savings
- **Recommendation**
  - Air Force should monitor actual savings, compare them with projected savings, and use the information to assess the effectiveness of this approach

## Initiative 4.02 - Streamlining and Saving Through Competition for Depot Maintenance

**Goal:** Streamline and save through competition for Depot Maintenance

**Performance Measure:** Projected dollar savings (in \$billion) from competed processes (difference between awarded work price and the budgeted cost of work).

### Projected dollar savings (in \$billion)

Target FY	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>
Projected Cumulative Savings	.214	.428	.642	.856	1.070	1.284	1.498	1.685
Target FY	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>	
Projected Cumulative Savings:	1.872	1.992	2.112	2.232	2.352	2.472	2.592	

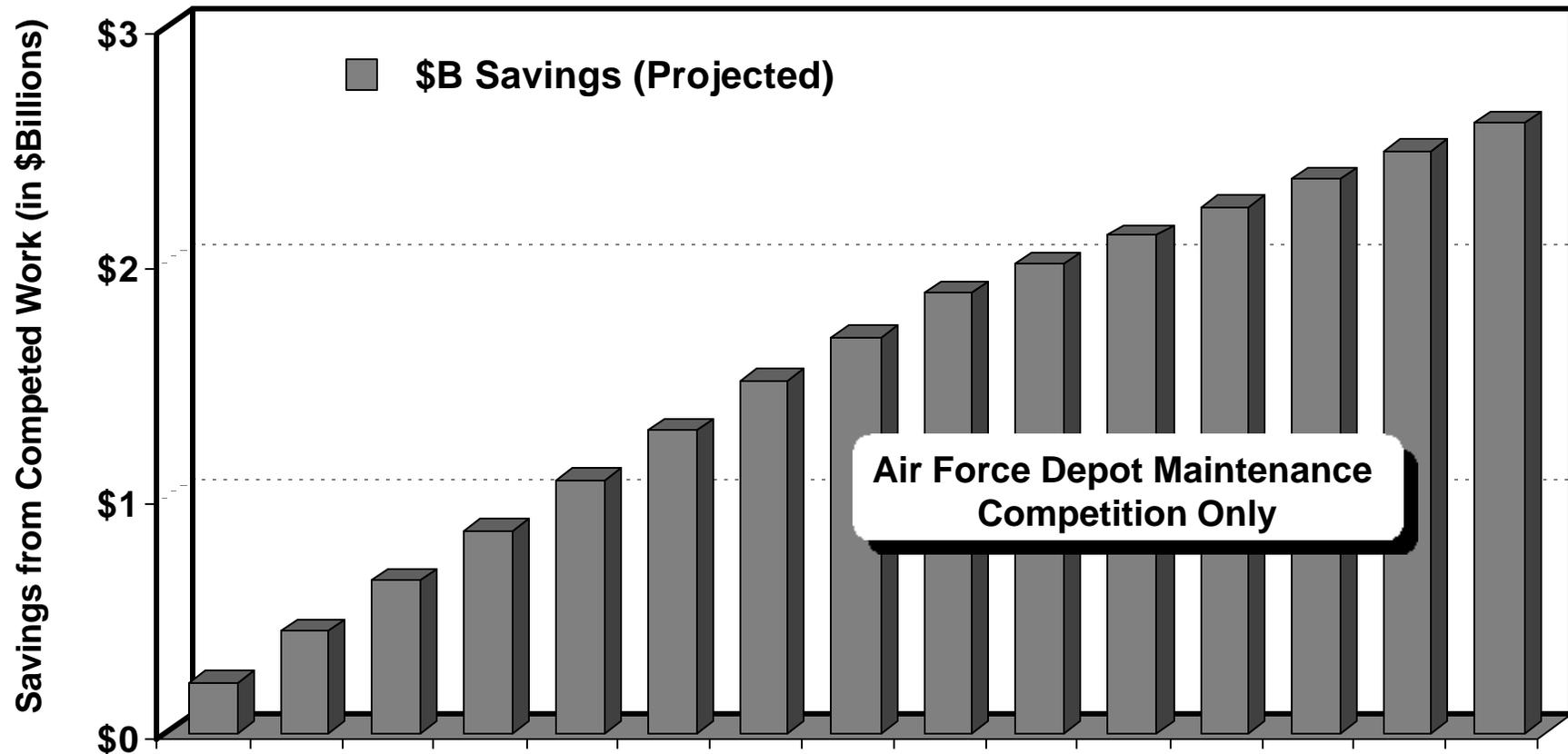
**Source:** ODUSD(LOG)(MPP&R)

**Organization, Systems, and Other Issues:** The existing metric is very limited in application because it only applies to a finite workload set within the Air Force resulting from the closure of two depots. Because the Army and Navy have no plans to compete depot maintenance work in the near future, the value of this measure is limited.



# Streamlining and Saving Through Competition for Depot Maintenance

*Savings from USAF Public-Private Competitions*



**Notes:**

1) Dollar savings from competed processes between awarded work price and the budgeted cost of work.

# **Recommended Additional Performance Measure - Unfunded Depot Maintenance Requirements**

## **Background**

As noted previously, the existing metric for the Streamlining and Saving Through Competition for Depot Maintenance Initiative involves only the Air Force and a finite (though sizable) segment of work. A more overarching metric is currently carried in GPRA, although it is not presently included as a DRI measure. That measure, unfunded depot maintenance requirements, reflects the relative growth over time of the depot maintenance backlog for each service. As such, this measure provides a crossover to force readiness, which is the paramount outcome to be measured. The management of depot maintenance backlog over time should reflect the balance between depot maintenance support of existing weapons systems versus acquisition of new systems as replacements. Given resource and funding constraints, the sustainment of this delicate balance underscores the reality that replacement of all systems over a short term is not fiscally feasible. The inclusion of this measure would also provide information for comparison with any further competitive or strategic sourcing efforts related to depot maintenance.

## **Approach**

The initial approach to this initiative included data research and information gathering of available information from DoD and other U.S. Government Web sites, trade journals, and other related references. Discussions were conducted with the prospective initiative lead.



# Recommended Additional Performance Measure - Unfunded Depot Maintenance Requirements

- **Background**
  - New metric provides crossover to force readiness
  - New metric provides comparison to acquisition of new weapons systems and further strategic and competitive sourcing of depot maintenance
- **Approach**
  - Conducted data research and information gathering
  - Conducted discussions with prospective initiative lead

## **Recommended Additional Performance Measure - Unfunded Depot Maintenance Requirements**

### **Performance Measures**

It is critical that DoD provide the necessary level of support, including depot level maintenance support, to the warfighting forces. The difference in dollars between the a Service's depot maintenance annual request and that Service's depot maintenance annual budget is the metric intended to measure maintenance backlog. For example, the table supporting the scorecards shows that in 1997 the difference between the Air Force budget request and the budget received was \$226 million. This represents the unfunded depot maintenance requirement. Discussions with the prospective initiative lead indicated a reluctance to incorporate this GPRA metric into the DRI, because the metric was generated by the USD (Comptroller) PA&E, and not by the office responsible for Defense depot maintenance policy. It is understandable that an initiative owner should have some responsibility for the performance measures related to their initiative. That office can coordinate with PA&E for data collection, validation, analysis, and reporting. A comprehensive, customer-focused picture of the Department's ability to support the warfighting forces, based on demand for depot maintenance services, funding available, and infrastructure available will assist in decision making and subsequent DoD leadership activity related to competitive and strategic sourcing policy. It will also provide an important comparison to acquisition of new weapons systems replacing current systems.

### **Recommendations**

Incorporate an Unfunded Depot Maintenance Requirements performance measure into this initiative as an important measure of depot maintenance support and priority to this nation's warfighting forces.



# Recommended Additional Performance Measure - Unfunded Depot Maintenance Requirements

- **Performance Measures**
  - Goal: Provide necessary level of support to warfighting forces
    - Dollar value measure: Unfunded depot maintenance backlog
  - This is an existing GPRA measure
  - Prospective initiative lead not currently responsible for measure
  - Inclusion of this measure will provide a more comprehensive picture of depot maintenance support to the war fighting forces and provide information for policy decisions and leadership actions
- **Recommendations**
  - Incorporate unfunded depot maintenance requirements measure into initiative 4.02

## Recommended Additional Performance Measure - Unfunded Depot Maintenance Requirements

**Goal:** Provide necessary level of support to warfighting forces by preventing the substantial growth of unfunded depot maintenance requirements (maintenance backlog) over time

**Performance Measure:** The difference between depot maintenance dollars requested and actual depot maintenance dollars funded (in \$millions)

	<b>Actual</b> <b><u>FY 1997</u></b>	<b>Actual</b> <b><u>FY 1998</u></b>	<b>Target</b> <b><u>FY 1999</u></b>	<b>Actual</b> <b><u>FY 1999</u></b>	<b>Target</b> <b><u>FY 2000</u></b>	<b>Target</b> <b><u>FY 2001</u></b>
<b><u>Service</u></b>						
<b>Army</b>	<b>457</b>	<b>543</b>	<b>440</b>	<b>452</b>	<b>191</b>	<b>231</b>
<b>Navy</b>	<b>782</b>	<b>608</b>	<b>585</b>	<b>663</b>	<b>589</b>	<b>823</b>
<b>Air Force</b>	<b><u>226</u></b>	<b><u>271</u></b>	<b><u>188</u></b>	<b><u>65</u></b>	<b><u>339</u></b>	<b><u>136</u></b>
<b>Total</b>	<b>1465</b>	<b>1422</b>	<b>1213</b>	<b>1180</b>	<b>1119</b>	<b>1190</b>

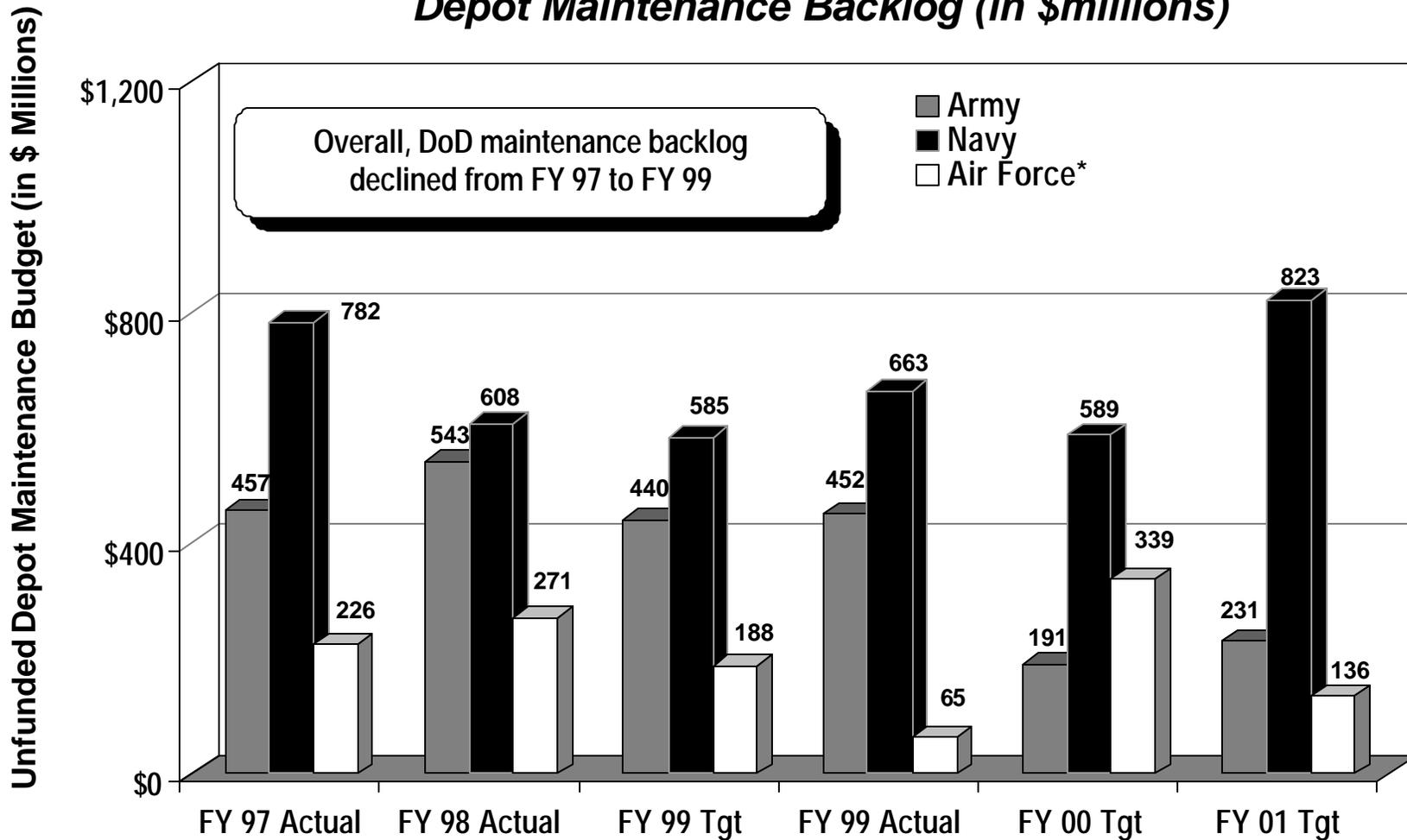
**Source:** President's Budget, FY 2001

**Organization, Systems, and Other Issues:** Prospective initiative lead is not currently responsible for this metric, and is not involved in collection-validation-analysis-reporting process.



# Prevent Substantial Growth of Unfunded Depot Maintenance Requirements (Backlog) Over Time

*Depot Maintenance Backlog (in \$millions)*



Note: \*includes National Guard and Air Force Reserve requirements.

## Recommended Additional Performance Measure - Unfunded Depot Maintenance Requirements

**Goal:** Provide necessary level of support to warfighting forces by preventing the substantial growth of unfunded depot maintenance requirements (maintenance backlog) over time

**Performance Measure:** The difference between depot maintenance dollars requested and actual depot maintenance dollars funded (in \$millions)

	<b>Actual</b>	<b>Actual</b>	<b>Target</b>	<b>Actual</b>	<b>Target</b>	<b>Target</b>
	<b><u>FY 1997</u></b>	<b><u>FY 1998</u></b>	<b><u>FY 1999</u></b>	<b><u>FY 1999</u></b>	<b><u>FY 2000</u></b>	<b><u>FY 2001</u></b>
<b><u>Service</u></b>						
<b>Army</b>	<b>457</b>	<b>543</b>	<b>440</b>	<b>452</b>	<b>191</b>	<b>231</b>
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<b>Air Force</b>	<b>226</b>	<b>271</b>	<b>188</b>	<b>65</b>	<b>339</b>	<b>136</b>

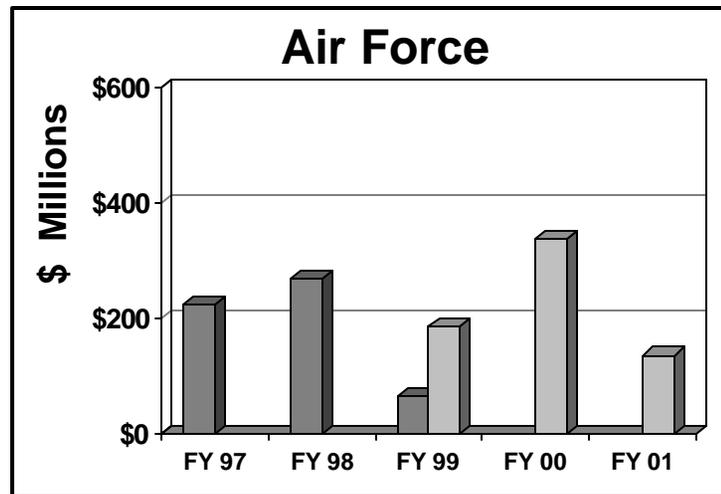
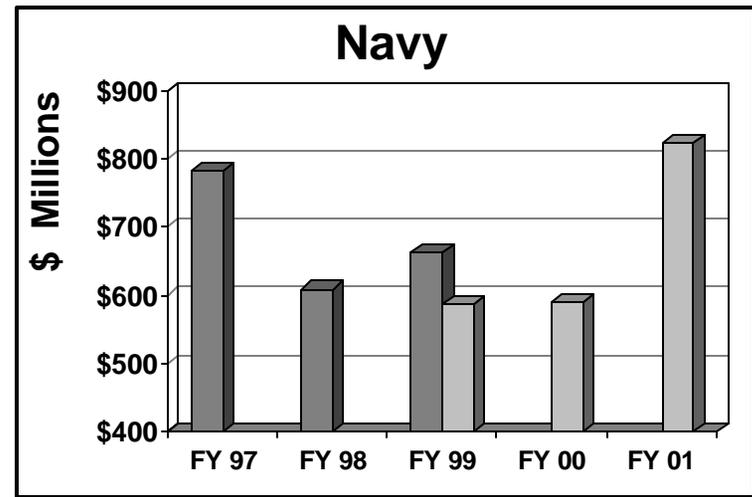
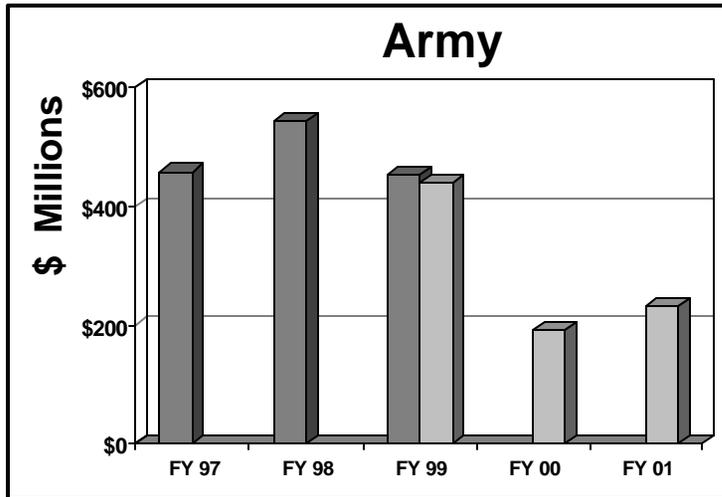
**Source:** President's Budget, FY 2001

**Organization, Systems, and Other Issues:** Prospective initiative lead is not currently responsible for this metric, and is not involved in collection-validation-analysis-reporting process.



# Prevent Substantial Growth of Unfunded Depot Maintenance Requirements (Backlog) Over Time

*Portion of Service Request Unfunded in Annual Budget*



While overall trends are good, near-term Navy targets require monitoring.

Note: \*includes National Guard and Air Force Reserve requirements.