



Performance Based Logistics

Impact on DoD Cost and Performance

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Proof Point Study

Charter

Conduct a rigorous, fact based, data driven analysis to determine PBL's cost per unit of performance impact on systems, sub-systems and components versus traditional, transactional sustainment arrangements

- Phase I Methodology

- 10 “Middle Dives”
- 1 “Deep Dive”

- Phase II Methodology

- 11 “Middle Dives”
- 5 “Deep Dives”

Document observed business practices and provide recommendations for improved sustainment management

Analyses Finding

Properly **structured** and **executed**, PBLs reduce cost per unit-of-performance while driving up absolute levels of performance

Empirical Evidence

- 14 of 15 PBLs with modest-to-strong contract structures resulted in decreased cost per unit of performance and improved absolute levels of performance, ... cost result for 15th was indeterminable.
- 20 of 21 weapon systems analyzed experienced improved performance compared to non-PBL sustainment (or performance exceeding contract specs for systems always maintained via PBL), ... including five arrangements exhibiting weak-to-modest PBL contract structure

Statistical Point of Proof with a Defined Level of Confidence

- PBL contract incentivized OEM investment behavior that drove down its cost to serve, drove up absolute performance levels and saved Service 27% over 10 year contract life

Compelling Evidence

- Well-crafted PBL contracts “manufacture competition” by incentivizing companies to compete against internal waste and quality challenges
- Appropriate contract lengths that provide assured revenue streams and contain well-crafted cost and performance incentives drive predictably positive outcomes for the Services

Observations

Fewer than 90 PBLs today, ...~1/2 the'05 number

PBLs present Services real challenges

- Recognition of their benefits

- Complexities

- Competition imperative

- Flexibility implications

- Stranded costs

Policy mandating PBL established in 2002, ...

Absence of organizational dynamics required to drive PBL adoption

PBL Bottom Line

The strategy best able to deliver
significantly reduced sustainment cost and improved readiness
with less overall risk

A single PBL arrangement is more complex to plan, source, manage and re-negotiate than a single discreet transactional arrangement, ...however, a single PBL contractual arrangement is less complex and less risky than establishing numerous, disparate contractual arrangements and then exercising the management synchronization required to sustain a single system using legacy transactional practices