

COMPONENT BREAKOUT

D-100 Scope.

(a) This appendix provides policy and procedures for breaking out components of end items for future acquisitions so that the Government can purchase the components directly from the manufacturer or supplier and furnish them to the end item manufacturer as Government-furnished material.

(b) This appendix does not apply to—

(1) The initial decisions on Government-furnished equipment/contractor-furnished equipment that are made at the inception of an acquisition program; or

(2) Breakout of parts for replenishment (see Appendix E).

D-101 Definition.

“Component,” as used in this appendix, includes subsystems, assemblies, subassemblies, and other major elements of an end item; it does not include elements of relatively small annual acquisition value.

D-102 Policy.

DoD policy is to breakout components of weapons systems or other major end items under certain circumstances.

(a) When it is anticipated that a prime contract will be awarded without adequate price competition, and the prime contractor is expected to acquire any component without adequate price competition, breakout that component if—

(1) Substantial net cost savings probably will be achieved; and

(2) Breakout action will not jeopardize the quality, reliability, performance, or timely delivery of the end item.

(b) Even when either or both the prime contract and the component will be acquired with adequate price competition, consider breakout of the component if substantial net cost savings will result from—

(1) Greater quantity acquisitions; or

(2) Such factors as improved logistics support (through reduction in varieties of spare parts) and economies in operations and training (through standardization of design).

(c) Breakout normally is not justified for a component that is not expected to exceed \$1 million for the current year's requirement.

D-103 Responsibility.

(a) Agencies are responsible for ensuring that—

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(1) Breakout reviews are performed on components meeting the criteria in D-102(a) and (b);

(2) Components susceptible to breakout are earmarked for consideration in future acquisitions;

(3) Components earmarked for breakout are considered during requirements determination and appropriate decisions are made; and

(4) Components are broken out when required.

(b) The program manager or other official responsible for the material program concerned is responsible for breakout selection, review, and decision.

(c) The contracting officer or buyer and other specialists (e.g., small business specialist, engineering, production, logistics, and maintenance) support the program manager in implementing the breakout program.

D-104 Procedures.

(a) A breakout review and decision includes—

(1) An assessment of the potential risks to the end item from possibilities such as delayed delivery and reduced reliability of the component;

(2) A calculation of estimated net cost savings (i.e., estimated acquisition savings less any offsetting costs); and

(3) An analysis of the technical, operational, logistics, and administrative factors involved.

(b) The decision must be supported by adequate explanatory information, including an assessment by the end item contractor when feasible.

(c) The following questions should be used in the decision process—

(1) Is the end item contractor likely to do further design or engineering effort on the component?

(2) Is a suitable data package available with rights to use it for Government acquisition? (Note that breakout may be warranted even though competitive acquisition is not possible.)

(3) Can any quality control and reliability problems of the component be resolved without requiring effort by the end item contractor?

(4) Will the component require further technical support (e.g., development of specifications, testing requirements, or quality assurance requirements)? If so, does the Government have the resources (manpower, technical competence, facilities, etc.) to provide such support? Or, can the support be obtained from the end item contractor (even though the component is broken out) or other source?

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(5) Will breakout impair logistics support (e.g., by jeopardizing standardization of components)?

(6) Will breakout unduly fragment administration, management, or performance of the end item contract (e.g., by complicating production scheduling or preventing identification of responsibility for end item failure caused by a defective component)?

(7) Can breakout be accomplished without jeopardizing delivery requirements of the end item?

(8) If a decision is made to breakout a component, can advance acquisition funds be made available to provide the new source any necessary additional lead time?

(9) Is there a source other than the present manufacturer capable of supplying the component?

(10) Has the component been (or is it going to be) acquired directly by the Government as a support item in the supply system or as Government-furnished equipment in other end items?

(11) Will the financial risks and other responsibilities assumed by the Government after breakout be acceptable?

(12) Will breakout result in substantial net cost savings? Develop estimates of probable savings in cost considering all offsetting costs such as increases in the cost of requirements determination and control, contracting, contract administration, data package purchase, material inspection, qualification or preproduction testing, ground support and test equipment, transportation, security, storage, distribution, and technical support.

(d) If answers to the questions reveal conditions unfavorable to breakout, the program manager should explore whether the unfavorable conditions can be eliminated. For example, where adequate technical support is not available from Government resources, consider contracting for the necessary services from the end item contractor or other qualified source.

D-105 Records.

(a) The contracting activity shall maintain records on components reviewed for breakout. Records should evidence whether the components—

- (1) Have no potential for breakout;
- (2) Have been earmarked as potential breakout candidates;
- (3) Have been, or will be, broken out.

(b) The program manager or other designated official must sign the records.

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(c) Records must reflect the facts and conditions of the case, including any assessment by the contractor, and the basis for the decision. The records must contain the assessments, calculations, and analyses discussed in D-104, including the trade-off analysis between savings and increased risk to the Government because of responsibility for Government-furnished equipment.