Partnering and Industrial Integration

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Partnering – Summary

What is it? A cooperative arrangement at a military service designated center of industrial and technical excellence (Sec 2474) where the government performs depot maintenance (Sec 2460) involving one or more core competencies (Sec 2464) and industry leverages underutilized facilities.

Why do it? To maximize capacity of depots, reduce costs of government ownership, reduce costs of products, leverage private sector investment in equipment recapitalization, promote commercial business ventures, and, of course – 50/50 (Sec 2466).

How is it working? Partial success with potential for improvement. There is no "one" model (or model options) for implementation. Partnerships are managed by varying military service directives and policies executed to satisfy specific "core" requirements that sometimes create redundant DoD capabilities.

Partnerships are complex and service specific

Partnering – Benefits

Industry Partnership Benefits

1. Leverage government infrastructure
2. Utilize trained workforce
3. Reward (revenue) to manage risk (improvements)
4. Sole source justification for contracts (manufacturing, engineering, logistics, technical)

Government Partnership Benefits

1. Improve manufacturing process (TAT, FPY, Backorders)
2. Faster logistics response time
3. Lower inventory requirements
4. Accurate demand forecasting
5. Access to commercial intellectual property rights

Benefits are clear to both parties

Partnering – Current Challenges

1. **Partial success:** Many partnerships rely on supporting contracts. Negotiating a partnership and contract simultaneously requires dealing with two "sides" of the service (warfighter / depot).

2. **Unexpected challenges**:

    1. Depot labor "indirect" rate is a challenge for firm-fixed price contracts.
    2. Lack of cost accounting prevents compliance with FAR-15.
    3. Efficiencies gained (reduced workloads) seen as a potential threat.

3. **Varying directives**. While industry understands every military service is unique, the "business" of repair is fairly consistent. Industry strives for replication as it eliminates unknown risk.

4. **Redundant capabilities**. Multiple repair locations for the same or similar item is a missed opportunity to drive efficiencies.

Partnerships are not "replicable" across the DoD

Industrial Integration – Work in Progress

The Product Support Assessment Team, a joint industry-government Industrial team has been working to improve partnerships

Objectives:

- Common partnering documents (standardization)
- Partnering toolbox
- Partnering matrix
- Partnering guide
- 2nd Annual Partnering Workshop
- Promote Innovation

Accomplishments:

- Policy Proposals
  - Delegate core waiver authority to Services - complete
  - Soften BCA requirement for partnerships - complete
- Partnering Survey
  - Recommendations for update in work - awaiting DASD review
- Partnering Guide on DAU ACC Site
- Common document formats in work
- Partnering Practitioners' Toolbox in work

Recognition that new tools are needed

Next Challenge – Think Enterprise

Value Proposition: Create a repeatable process that:

- Contracts for improved reliability at guaranteed lower costs on common components used by multiple military services;
- Leverages a single contract utilizing core capabilities of the public industrial base under an common partnership; and
- Implements commercial-based product improvements during the regularly maintenance intervals.

Enterprise Alternative

New paradigm…for the fiscally constrained sustainment world:

- Performance-Based Logistics contracts are more involved and leveraged than transactional maintenance contracts…but Proof Points demonstrates the effort is generally worth the long term results.
- Similarly, there are three evolving corollary approaches:
  - Enterprise Performance Based Logistics Contracts (ePBL)
  - Enterprise Public Private Partnerships (ePPP)
  - Product Improvement Pilot Program (PIP^2)
- While not for required for every maintenance opportunity, utilizing an Enterprise PBL (ePBL) in combination with ePPP while the leveraging proposed military service PIP^2 authority could drive large-scale cost efficiencies.

Combine ePBL with ePPP utilizing PIP^3 = THE FUTURE?

Enterprise Performance Based Contract

ePBL advantages:

- Target affordability and control cost growth
- Incentivize productivity and innovation across DoD
- Reduce non-value-added processes
- Get better buying power for the warfighter and the taxpayer
- Improve defense industry productivity and capacity

What does this look like?

- 10-year term, firm-fixed price contract (5+5) to promote investment
- Guaranteed savings combined with gain sharing option for government
- General terms with specific outcomes
- When appropriate, leverage FAR-12 to capture commercial pricing efficiencies
- Reduce government contract bureaucracy and oversight
- Manage single supply chain to lower costs
- DLRs Service managed with consistent Class II configuration management authority
- Drive depot efficiency with implementation of standard maintenance practices

Is it time for Enterprise Contracting?

Enterprise Public-Private Partnerships

ePPP advantages:

- Implement partnerships that facilitate transition to single DoD “centers” for maintenance of specific components
- Eliminate redundancy of effort, capacity and capability
- Implement 5 year core plans to create stability

What does it look like?

- Measure core with production outcomes versus with annual direct labor hours
- Create a repeatable, fast track process
- Collectively prioritize enterprise efforts to implement largest efficiency results
- Accept 80% process solutions for a common business model
- Utilize an Enterprise Governance Board with ODASD(MR), ODASD(MPP) , OUSD(C), DPAP and military service equivalents driving a long term effort that targets industrial duplication, improved support and cost efficiencies

Is it time for Enterprise Partnerships?

Product Improvement Pilot Program*

PIP² advantages:

- Utilizes working service working capital funds to drive reliability, availability and maintability improvements during depot maintenance
- Requires strong return on investment analysis
- Uniquely suited to augment ePBL contracts as well as drive new capacity under ePPP
- Leverages commercial solutions

What does it look like?

- Procurement and installation of a retrofit, modernization, upgrade or rebuild of a component or subsystem of a weapon system platform or major end item
- Coordination with PEO / PM office to leverage flexibility of working capital funds to avoid using procurement dollars to essentially buy "better" parts
- Aligns the source of funding with the expected return of savings (WCF/O&M)
- Accelerates efficiency opportunities by years

*This is included in the House passed FY 13 NDAA – this is not law. This authority currently is only provided to the Department of Army.

Is it time for maintenance-based product improvement?

Summary

- Partnerships are proven tools -- there are improvements that can be made using over a decades worth of experience
- The Industrial Integration Product Support Team will continue to coordinate these improvements
- Perhaps it is time to aggressively think of partnerships as part of a larger sustainment strategy that utilizes performance-based logistics contracts and product improvement authority to drive increased availability at lower costs
- At the Military Service level: PBL + PPP + PIP^2 = service efficiencies
- At the Enterprise level: ePBL + ePPP + PIP^2 = DoD efficiencies

New Efficiency Targets Require Updated Sustainment Paradigm

PIP² Details

This is not law. It was part of the House FY 13 NDAA. Final adoption pending FY 13 NDAA.

Section 333 (Amends FY 2008 NDAA Section 330)
SEC. 330. PILOT PROGRAM FOR AVAILABILITY OF WORKING-CAPITAL FUNDS FOR CERTAIN PRODUCT IMPROVEMENTS.
(a) In General- Notwithstanding section 2208 of title 10, United States Code, the Secretary of the Army, the Secretary of the Navy, and the Secretary of the Air Forces (in this section referred to as the ‘Secretary concerned’) may use a working-capital fund established pursuant to that section for expenses directly related to conducting a pilot program for a product improvement described in subsection (b).

(b) Product Improvement- A product improvement covered by the pilot program is the procurement and installation of a retrofit, modernization, upgrade or rebuild of a component or subsystem of a weapon system platform or major end item that would improve the reliability, availability, and maintainability, extend the useful life, enhance safety, lower maintenance costs, or provide performance enhancement of the weapon system platform or major end item.

(c) Limitation on Certain Projects- Funds may not be used under subsection (a) for--
(1) any product improvement that significantly changes the -capability of an end item; or
(2) any component with an estimated total cost in excess of $1,000,000.

(d) Limitation in Fiscal Year Pending Timely Report- If during any fiscal year the report required by paragraph (1) of subsection (e) is not submitted by the Secretary concerned by the date specified in paragraph (3) of that subsection, funds may not be used by the Secretary concerned under subsection (a) in such fiscal year during the period--
(1) beginning on the date specified in paragraph (3) of subsection (e); and
(2) ending on the date of the submittal of the report under paragraph (1) of subsection (e).

(e) Annual Report-
(1) IN GENERAL- Each fiscal year, by the Secretary concerned shall submit to the congressional defense committees a report on the use of the authority in subsection (a) during the preceding fiscal year.
(2) RECOMMENDATION- In the case of the report required to be submitted under paragraph (1) during fiscal year -2017, the report shall include the recommendation of the by the Secretary concerned regarding whether the authority under subsection (a) should be made permanent.
(3) DEADLINE FOR SUBMITTAL- The report required by paragraph (1) in a fiscal year shall be submitted not later than -45 days after the date of the submittal to Congress of the budget of the President for the succeeding fiscal year pursuant to section 1105 of title 31, United States Code.
(f) Sunset- The authority under subsection (a) shall expire on October 1, 2018.