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ACQUISITION,
TECHNOLOGY
AND LOGISTICS

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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS

SUBJECT: Performance Based Logistics: Purchasing Using Performance Based Criteria

The Deputy Secretary of Defense memorandum of February 4, 2004, "Implementation of the Defense Business Practice Implementation Board (DBB) Recommendation to the Senior Executive Council (SEC) on Continued Progress on Performance Based Logistics", directed that my office issue clear guidance on purchasing weapon system logistics support using performance-based criteria. That guidance follows.

DoD 5000.1, the Defense Acquisition System, requires program managers to develop and implement performance based logistics (PBL) strategies that optimize total system availability while minimizing cost and logistics footprint. PBL strategies may be applied at the system, subsystem, or major assembly level depending upon program unique circumstances and appropriate business case analysis. PBL arrangements will be constructed to truly purchase performance, as detailed in this memorandum.

Those purchasing PBL should follow Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS) guidance, as appropriate, for the acquisition of logistics services and support and should seek to utilize FAR Part 12 – "Acquisition of Commercial Items" to acquire PBL as a commercial item. Additional information regarding PBL implementation is included in the DoD Interim Defense Acquisition Guidebook.

For PBL, "performance" is defined in terms of military objectives, using the following criteria:

(1) Operational Availability. The percent of time that a weapon system is available for a mission or ability to sustain operations tempo.

(2) Operational Reliability. The measure of a weapon system in meeting mission success objectives (percent of objectives met, by weapon system). Depending on the weapon system, a mission objective would be a sortie, tour, launch, destination reached, capability, etc.

(3) Cost Per Unit Usage. The total operating costs divided by the appropriate unit of measurement for a given weapon system. Depending on weapon system, the measurement unit could be flight hour, steaming hour, launch, mile driven, etc.

(4) Logistics Footprint. The government / contractor size or "presence" of logistics support required to deploy, sustain, and move a weapon system. Measurable elements include inventory / equipment, personnel, facilities, transportation assets, and real estate.

(5) Logistics Response Time. This is the period of time from logistics demand signal sent to satisfaction of that logistics demand. "Logistics Demand" refers to systems, components, or resources, including labor, required for weapon system logistics support.

PBL metrics should support these desired outcomes. Performance measures will be tailored by the Military Departments to reflect, specific Service definitions and the unique circumstances of the PBL arrangements.

The preferred PBL contracting approach is the use of long-term contracts with incentives tied to performance. Award term contracts should be used where possible to incentivize optimal industry support. Incentives should be tied to metrics tailored by the Military Departments to reflect their specific definitions and reporting processes. Award and incentive contracts shall include tailored cost reporting to enable appropriate contract management and to facilitate future cost estimating and price analysis. PBL contracts must include a definition of metrics and should be constructed to provide industry with a firm period of performance. Wherever possible, PBL contracts should be fixed price (e.g., fixed price per operating or system operating hour). Lack of data on systems performance or maintenance costs, or other pricing risk factors may necessitate cost type contracts for some early stage PBLs. Full access to DoD demand data will be incorporated into all PBL contracts. PBL contracts should be competitively sourced wherever possible and should make maximum use of small and disadvantaged sources. PBL contractors should be encouraged to use small and disadvantaged businesses as subcontractors, and may be incentivized to do so through PBL contractual incentives tied to small and disadvantaged business subcontracting goals.

The Defense Acquisition University (DAU) website (www.dau.mil) provides courses in performance based service acquisition and PBL as well as PBL "lessons learned." Maximizing use of these DAU resources will increase our ability to support the warfighter.

This guidance is effective immediately and will be incorporated into the Defense Acquisition Guidebook.

Michael W. Wynne
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