

PBL Seminar

Key Success Factors and Lessons learned from PBL in US

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Agenda

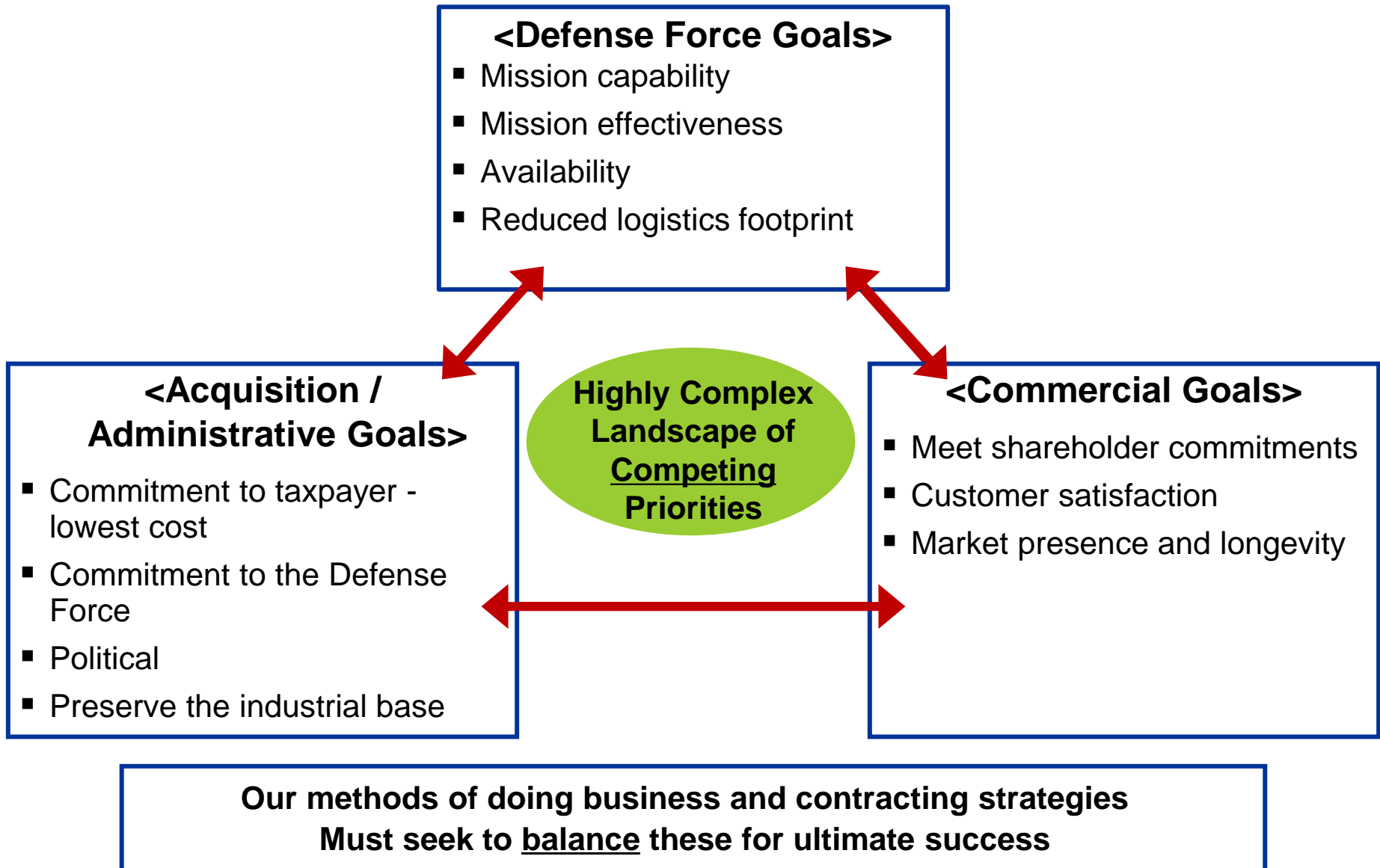
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|-------------------------------------------------------------------------------------|------------|
| 1. PBL Realities | P3 |
| 2. New Change and Challenges | P11 |
| 3. Being Ready for New Changes and Challenges
- Transformation for PBL - | P16 |

1. PBL Realities

***The future is not
what it used to be***

- Yogi Berra, Professional Baseball Player

Sustaining Defense Force Assets is Highly Challenging



***PBL is purchasing
performance Outcomes***

Not parts and services

What is PBL?

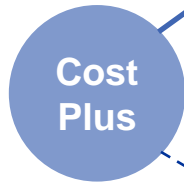
- “PBL is the purchase of support as an integrated, affordable, performance ***package***
- designed to optimize system readiness and meet the ***performance goals*** for a weapon system
- through ***long term support arrangements*** with clear lines of authority and responsibility”

- *US Defense Acquisition Guidebook (section 5.3)*

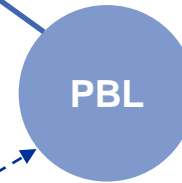
Purchasing Performance OUTCOMES not parts and Services

Cost Plus vs. PBL

US DoD 1996-2002 full
Contractor Logistic
Support (CLS)



2002 Performance
Based Logistics



Cost Plus

- Paid for each event
 - Service
 - Spare parts
 - Technical support
- Risk is on the customer

The more we sell, the more we make

Performance Based Logistics (PBL)

- Paid for performance outcomes
- Motivated to:
 - Improve reliability
 - Increase process efficiency
 - Improve forecast accuracy
- Risk is on the provider

The less we sell, the more we make

The benefits are real - to both parties

A win for the **Customer**.....

- Improved availability of F-14 targeting systems from 73 to 90%

- F-117 demonstrated \$120M savings over six years
- Reduced maintenance man hours per flight hour on C-17s by 66%

- Depot-based maintenance time reduced from 261 to 76 days
- Reduced the wait for F-18 supplies from 47 to 7 days

.....is a win for the **provider**

- Increased revenue from \$/Operating hour fees (aircraft is more available)

- Capturing margin from cost under-runs

- Performance incentives for meeting explicit contract metrics

What does PBL mean to the Aerospace Industry?

**A shift to
commercial best
practices**

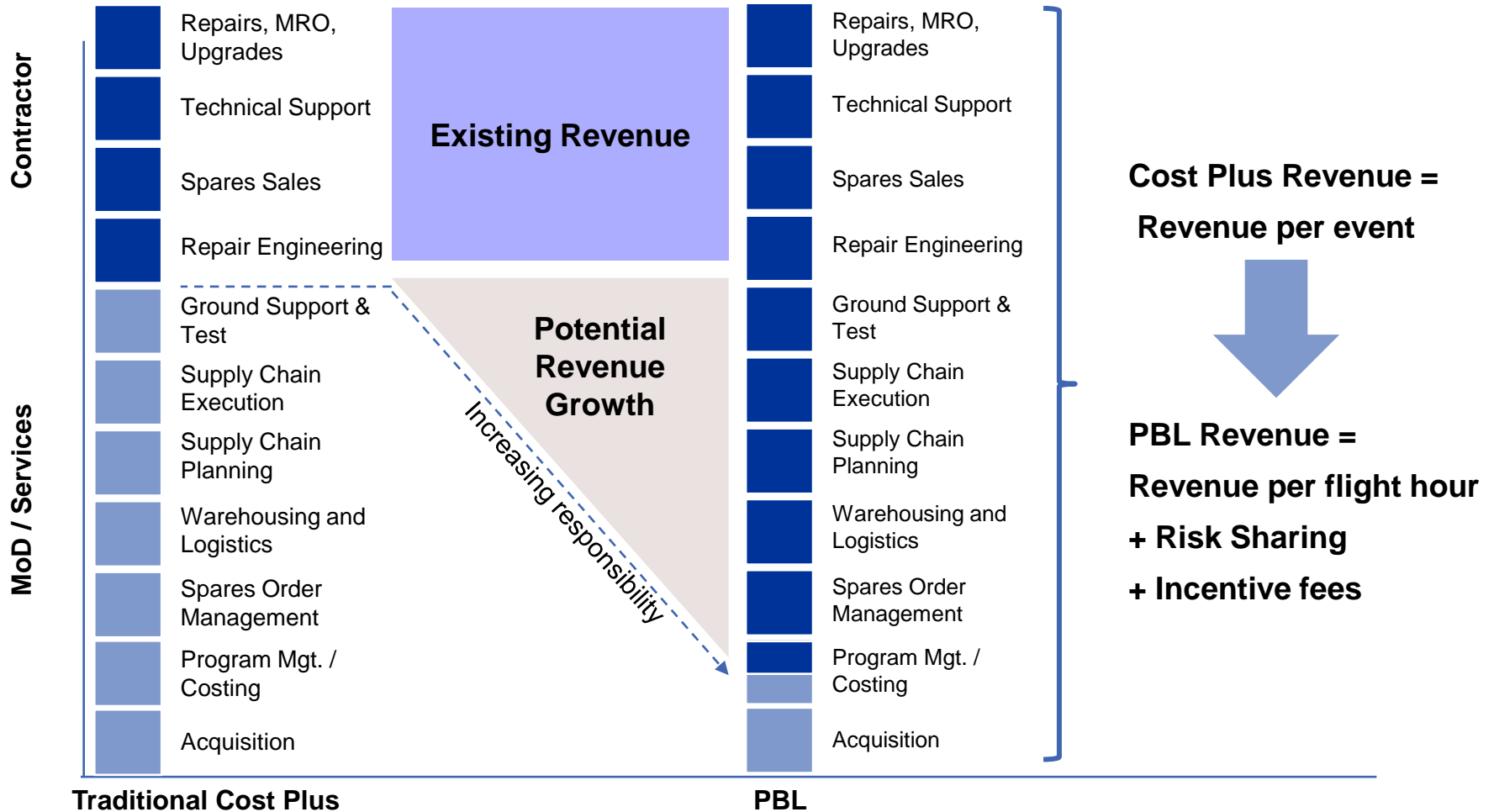
- PBL makes a shift to commercial best practices in key areas such as:
 - Supply chain management
 - Warehousing
 - Logistics etc.

**Means greater
levels of
outsourcing...**

- More capability being outsourced, means larger opportunities for the private sector with trickle-down to smaller businesses

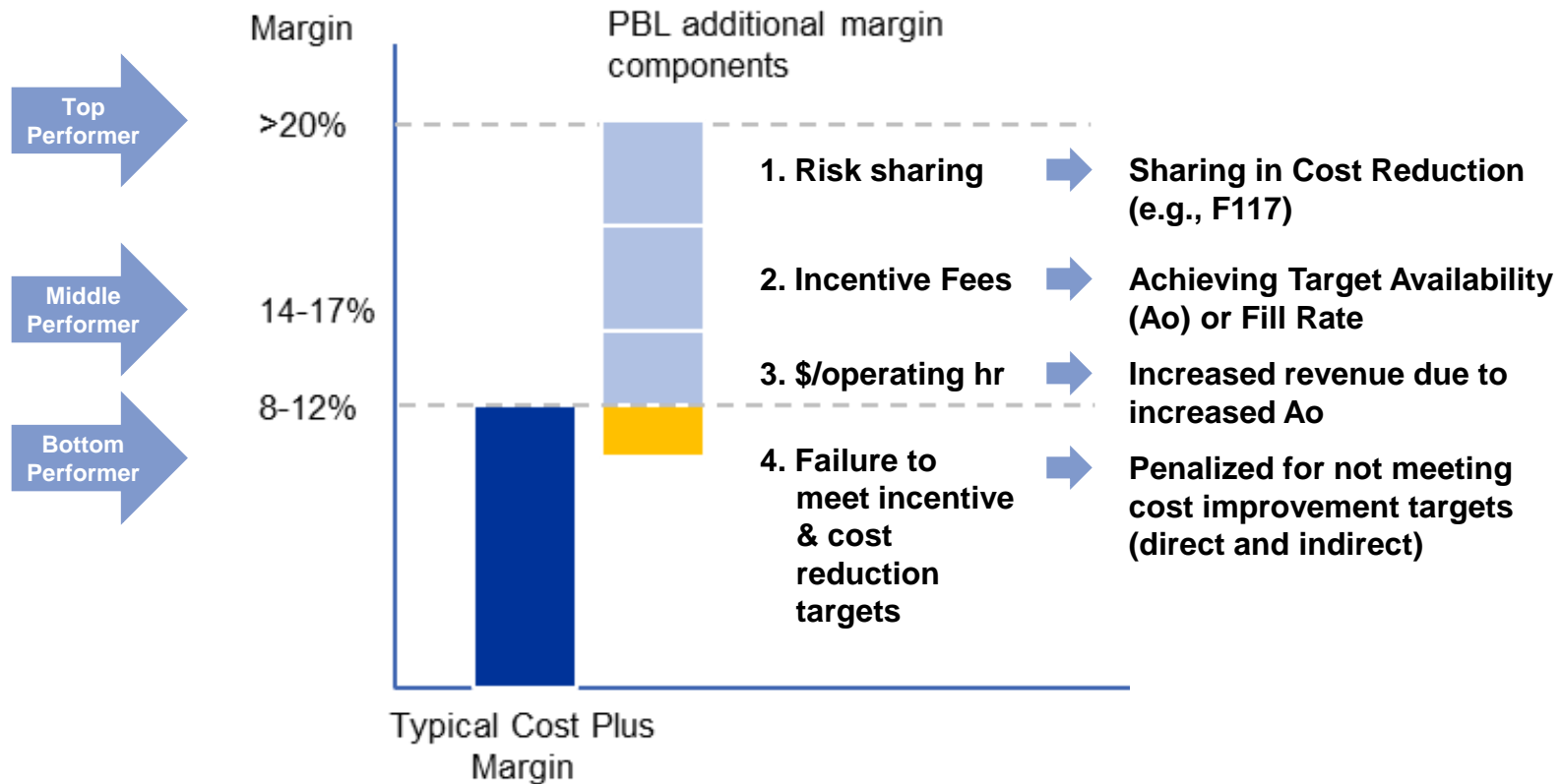
**This represents a large and real opportunity for those
who can get it right**

Increase revenue comes from additional responsibility



**The Government gets increased performance at guaranteed cost;
The Contractor gets increased revenues ... and risk**

There are real opportunities to increase margin

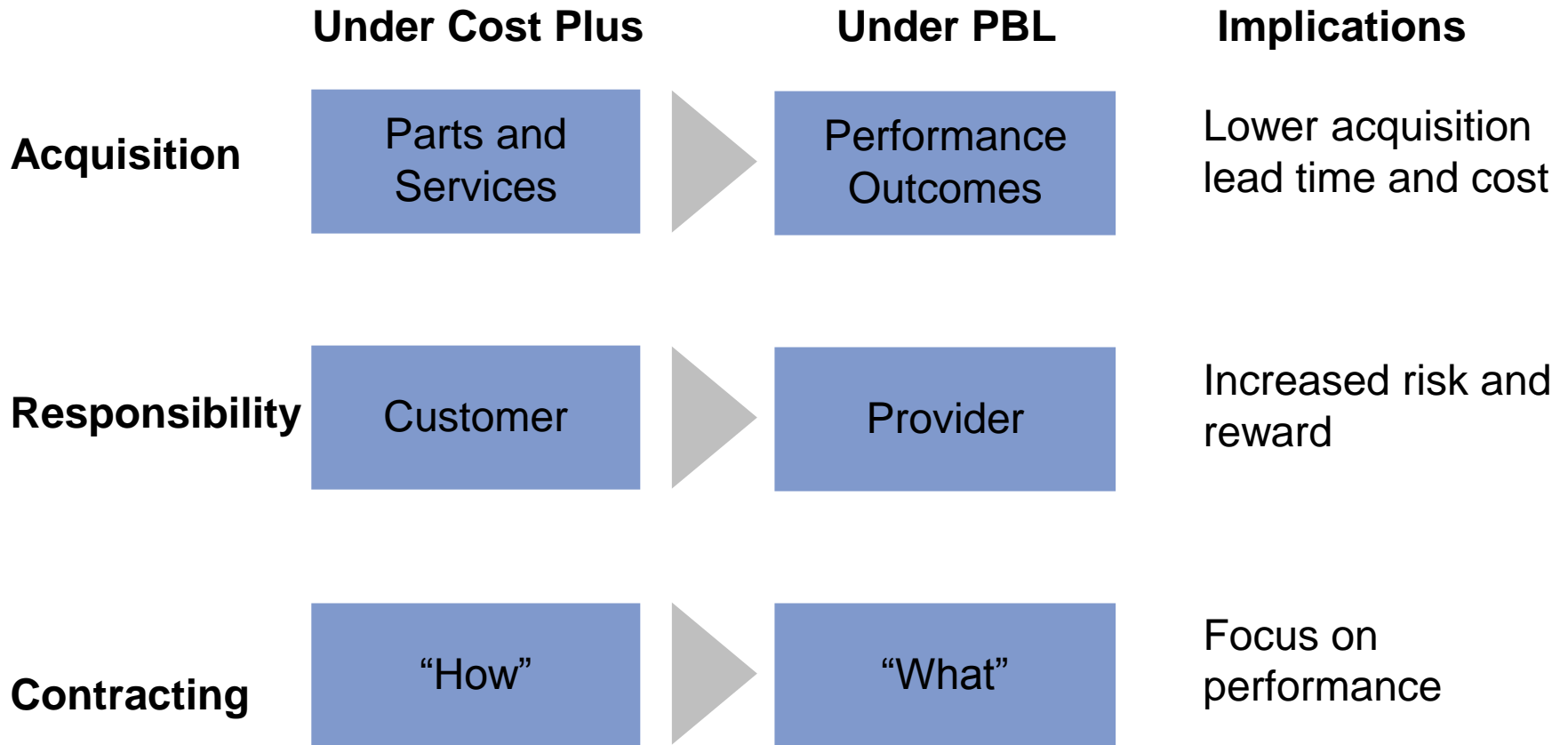


The Customer is more focused on performance outcomes at a predictable cost rather than lowest overall cost

***Understanding changes and challenges
and deploying new capabilities
are prerequisite for Success***

2. New Change and Challenges

PBL Does not Change the Basic Elements of Support



But it does mean CHANGE for both parties

Changes – New Approach is required... (1/2)

	Cost Plus	PBL
Contract	<ul style="list-style-type: none">Contract the “how”	<ul style="list-style-type: none">Contract explicit performance targets
Engineer	<ul style="list-style-type: none">Engineer for functionality and effectiveness	<ul style="list-style-type: none">Engineer for reliability and maintainability
Manage order	<ul style="list-style-type: none">Manage order	<ul style="list-style-type: none">Create and determine order
Plan/forecast	<ul style="list-style-type: none">Use historical consumption and MRP	<ul style="list-style-type: none">Perform readiness based sparing
Manufacture and Repair	<ul style="list-style-type: none">Manufacture/ repair to customer order	<ul style="list-style-type: none">Provider decides to make, buy, or repair

Changes – New Approach is required... (2/2)

	Cost Plus	PBL
Procure	<ul style="list-style-type: none">▪ Procure based on MRP	<ul style="list-style-type: none">▪ Procure based on sparing plan
Warehouse/ logistics	<ul style="list-style-type: none">▪ Manage own warehouse and logistics	<ul style="list-style-type: none">▪ Manage remote and customer warehouse and logistics
Billing	<ul style="list-style-type: none">▪ Bill per event (repair, spares, and new parts)	<ul style="list-style-type: none">▪ Bill for performance achieved
Costing	<ul style="list-style-type: none">▪ Report high-level cost	<ul style="list-style-type: none">▪ Detailed cost per event
Manage program	<ul style="list-style-type: none">▪ Manage by EVM (cost and schedule)	<ul style="list-style-type: none">▪ Manage efficiency, cost effectiveness, and trade-offs

Challenges – Not only process.. How we execute business

Foundational

- Weakly articulated division or enterprise strategy
- Lack of centralized leadership
- Organizational misalignment vs. PBL objectives
- Proliferation of tools and capability across divisions
- Wasted resources managing diverse systems, integration and data leading to eroding margins

Execution

- Lack of standardized processes
- Inability to price risk associated with PBL
- Difficulty forecasting and optimizing spares inventory
- Difficulties measuring and diagnosing contract performance across the portfolio

Enabling

- Poor data quality and visibility – costing, inventories etc.
- Inability to affect levels of collaboration needed for success

**3. Being Ready for New Changes and
Challenges
- Transformation for PBL -**

Transformation is every aspect of your business

Transformation \neq

**Process +
Technology**

Transformation =

**Strategy +
Operating Model +
Culture/ People +
Policy +
Process +
Technology +
Infrastructure**

Transformation Funding is common pain points in US

“Initial Investment to realize transformation was pain for us but we are now seeing the benefits”

– CFO , Major Defense Contractor

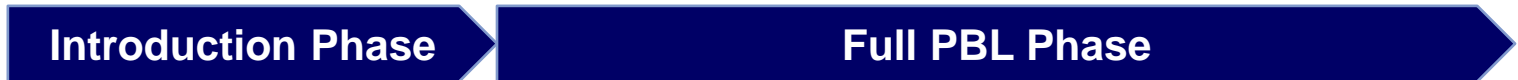
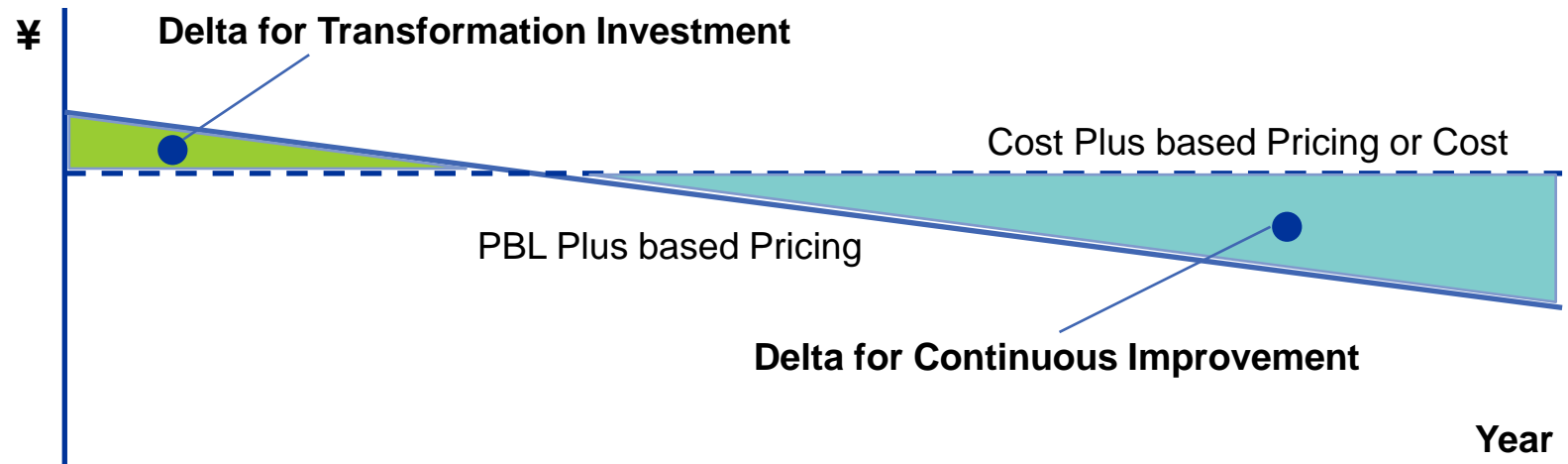
“Transformation funding and leadership commitment was not approved...

... we are loosing with PBL”

– CFO , Major Defense Contractor

Joint investment and effort by Customer and Provider is Key for Successful Transformation and Outcomes

Proposed Approach for Joint Investment and Effort



- | | |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Customer | <ul style="list-style-type: none"> ■ Accept price more than cost plus based ■ Share “Delta” as incentives with Provider |
| Provider | <ul style="list-style-type: none"> ■ Invest “Delta” for transformation effort ■ Invest additional “Delta” and continuously improve performance and reduce cost |

Finally...

- Sustainment acquisition needs to **balance** force-readiness, taxpayer efficiency while preserving the industrial base
- Performance incentivized contracting is clearly a **positive driver** throughout the sustainment value chain but...
- ...**education** needs to occur at all levels to understand the benefits
- MoDs need to **assess** the sustainment capability chain and determine which capabilities to outsource to meet its overall objectives
- Opportunities exist to use **commercial best practices** to increase efficiency and cost effectiveness of sustainment programs
- This presents a **positive** knock-on effect into the private sector



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