



Highlights of [GAO-04-715](#), a report to the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

Why GAO Did This Study

The Department of Defense (DOD) is pursuing a policy that promotes performance-based logistics at the platform level as the preferred product support strategy for its weapon systems, based in part on DOD's perception that this is an industry best practice. GAO was asked to compare industry practices for activities using complex and costly equipment with life-cycle management issues similar to those of military systems to identify lessons learned that can be useful to DOD. This is the first of two reports addressing DOD's implementation of performance-based logistics and is intended to facilitate DOD's development of new guidance on the use of this approach.

What GAO Recommends

GAO recommends that DOD (1) revise its policy and guidance to the services to reflect the industry practice of using performance-based logistics as a tool to achieve economies at the subsystem or component level, rather than at the platform-level, and (2) provide for sufficient technical data to support alternative support options using either the public or the private sector. DOD concurred with our recommendations, noting that it would re-emphasize via policy and training the use of performance-based logistics at the subsystem level and take steps to update acquisition policy to include guidance on purchasing rights or long-term access to technical data.

www.gao.gov/cgi-bin/getrpt?GAO-04-715.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William M. Solis at (202) 512-8365 or solisw@gao.gov.

DEFENSE MANAGEMENT

Opportunities to Enhance the Implementation of Performance-Based Logistics

What GAO Found

DOD's current policy for implementing performance-based logistics as a preferred support approach at the weapon system platform level does not reflect the practices of private-sector companies that support expensive and complex equipment with life-cycle management issues. The companies GAO interviewed use performance-based contracting as a tool rather than as a preferred support concept at the weapon system platform level. While 7 of the 14 companies GAO interviewed use some type of performance-based contracting, they use it at the subsystem or component level—for commodities such as engines, wheels, and brakes—when it is cost-effective and reduces risk in a noncompetitive environment. DOD's proposed policy of pursuing performance-based logistics as the preferred support approach at the platform level results in contracting out the program-integration function—a core process the private-sector firms consider integral to successful business operations. Further, this proposed policy could limit opportunities to take advantage of competition when it is available for subsystems or components as well as limit opportunities to gain purchasing power from volume discounts on components across an entire fleet and avoid the administrative costs charged by a prime integrator.

While DOD is proposing the aggressive use of performance-based logistics on both older and new weapon system platforms, the companies GAO interviewed use performance-based contracting at the subsystem or component level when it is cost-effective—often in a noncompetitive environment when the manufacturer controls expensive repair parts, such as engines. In general company officials said they rely more widely on other contracting vehicles, such as time and material contracts, particularly for new systems. Company officials noted that in the absence of accurate and reliable information on system performance to establish a baseline for evaluating the cost-effectiveness of a performance-based contract for new systems, the risk of the negotiated price's being excessive is increased.

The companies GAO interviewed also emphasized the importance of having rights to the technical data—such as maintenance drawings, specifications, and tolerances—needed to support the management of all logistics contracts and, should the service provider arrangements fail, to support competition among alternate providers. In contrast, DOD program managers often opt to spend limited acquisition dollars on increased weapon system capability rather than on rights to the technical data—thus limiting their flexibility to perform work in-house or to support alternate source development should contractual arrangements fail.