



DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
RESEARCH, DEVELOPMENT AND ACQUISITION  
1000 NAVY PENTAGON  
WASHINGTON DC 20350-1000

11 July 2000

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION,  
TECHNOLOGY AND LOGISTICS)

Via: DEPUTY UNDER SECRETARY OF DEFENSE  
(ACQUISITION REFORM)

Subj: PERFORMANCE BASED SERVICES ACQUISITION (PBSA)

The DoN implementation plan, attachment (1), is provided in response to your memorandum of April 15, 2000. The DoN implementation plan is based on use of tools currently available to the workforce. Turbo Streamliner and Turbo Specrite! are DoN tools developed to support performance based strategies. The implementation plan identifies business areas for PBSA and the method for collecting data on PBSA.

To ensure widest practicable adoption of PBSA, I have provided DoN acquisition leadership copies of your memorandum, the DoN PBSA Implementation Plan and reiterated the importance of adopting performance based strategies for service acquisitions (attachment (2)). Attachment (2) also reemphasizes the need for PBSA training before participating on a services acquisition team. I have requested each organization to submit PBSA training plans for their workforce.

Please address questions or comments on the DoN PBSA Implementation Plan to Bob Johnson at [johnson.robert@hq.navy.mil](mailto:johnson.robert@hq.navy.mil) or (703) 602-2805.

A handwritten signature in cursive script, appearing to read "Paul A. Schneider".

Paul A. Schneider  
Principal Deputy

Attachments:

- (1) DoN PBSA Implementation Plan
- (2) ASN(RDA) memorandum, this date



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MEMORANDUM FOR DISTRIBUTION

Subj: IMPLEMENTING PERFORMANCE BASED SERVICES ACQUISITION (PBSA)

Acquisition of services is an increasingly significant component of DoD procurement. The USD(AT&L) requires that 50 percent of services acquisitions, measured both in dollars and actions, be performance based by the year 2005 (attachment (1)). USD(AT&L) also highlighted the importance of PBSA training and requested a written implementation plan for meeting the 50 percent performance goals. The implementation plan is to address dissemination of PBSA guidance, focus business areas, training and method for collecting PBSA performance data.

The DoN implementation plan (attachment (2)) is based on widespread dissemination of PBSA guidance through electronic avenues. The plan also includes expanded use of existing tools such as *Turbo Streamliner* and *Turbo Specrite!* as well as discussions in the Navy Services Contracting Guide. These tools and the guide can be accessed through the ASN(RDA) homepage at <http://www.rda.hq.navy.mil>, under ABM or ARO. The implementation plan also identifies those business areas that we will focus on for PBSA implementation.

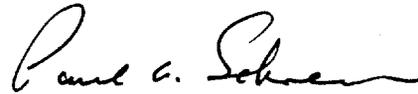
Understanding the precepts of PBSA is crucial to effective implementation within DoN. Personnel defining services requirements or participating on services acquisition teams must be trained in PBSA before initial participation. Please submit a PBSA training plan for personnel participating in service acquisition not later than October 30, 2000. PBSA training may be included for meeting Continuous Learning goals.

To assess DoN effectiveness in implementing PBSA, Heads of Contracting Activities must provide information on PBSA accomplishment, using the format in attachment (2), within thirty days after the end of the fiscal year. The first report is due October 30, 2000.

Subj: IMPLEMENTING PERFORMANCE BASED SERVICES ACQUISITION (PBSA)

Questions or comments on the DoN implementation plan and performance reports may be addressed to Bob Johnson at johnson.robert@hq.navy.mil or (703) 602-2805(DSN: 332-2805).

By working together, we can meet the challenge to implement PBSA within DoN.



Paul A. Schneider  
Principal Deputy

Attachments

- (1) USD(AT&L) memorandum of April 5, 2000
- (2) DoN PBSA Implementation Plan

Distribution:

Distribution with attachments:

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PEO (EXW)  
PEO (A/C CARRIERS)  
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COMNAVSEASYSYSCOM  
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COMSPAWARSYSCOM  
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CNR  
COMSC  
CNO  
CMC

Subj: IMPLEMENTING PERFORMANCE BASED SERVICES ACQUISITION (PBSA)

Distribution to w/o attachments

[Attachments (1) and (2) will be available on the ABM home page  
<http://www.abm.rda.hq.navy.mil>]

PDASN

DASN(AIR)

DASN(SHIPS)

DASN(C<sup>4</sup>I)

DASN(PPR)

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DASN(EFP)

ACQUISITION REFORM EXECUTIVE

CHIEF TECHNOLOGY OFFICER

DACM

Dir(IPO)

CNR

AGC(RDA)

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ACQUISITION AND  
TECHNOLOGY

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

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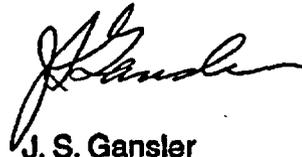
MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
DIRECTORS, DEFENSE AGENCIES  
DIRECTOR, DEFENSE LOGISTIC AGENCY

SUBJECT: Performance-Based Services Acquisition (PBSA)

As services become an increasingly significant component of what the Department buys, we must ensure that we acquire them effectively and efficiently. That is why the use of performance-based acquisition strategies for services remains among my highest priorities. This is important for all functional communities involved in the service acquisition process. It is the policy of the Department of Defense (DoD) that, in order to maximize performance, innovation, and competition, often at lower cost, performance-based strategies for the acquisition of services are to be used wherever possible. While not all acquisitions for services can be conducted in a performance-based manner, the vast majority can. Those cases in which performance-based strategies are not employed should become the exceptions.

In order to ensure that the Department continually realizes these savings and performance gains, I establish, at a minimum, that 50 percent of service acquisitions, measured both in dollars and actions, are to be performance-based by the year 2005. To achieve this goal, I further direct that the Military Departments and the Defense Logistics Agency develop a PBSA implementation plan to increase the use of performance-based service acquisition strategies within their organizations not later than 60 days from the date of this memorandum. In addition, training is essential to increasing performance-based acquisition for services, and I am committed to providing to the acquisition workforce the training and tools needed to define, acquire, and manage service requirements efficiently and effectively. For example, the National Association of Purchasing Management and the National Contract Management Association have each collaborated in the development of a PBSA course, available via the Internet or for on-site team training. I ask that you ensure that your relevant workforce take this or equivalent performance based services acquisition training within the next twelve months. As well, PBSA templates and guidebooks will be available to the entire workforce by May 2000.

The attachment provides the necessary details regarding the PBSA implementation plan, training requirements, and other Department-wide PBSA initiatives. The use of true performance-based strategies for the acquisition of services offers great benefits to the Department. I look forward to your efforts to ensure the fullest possible implementation of such strategies.



J. S. Gansler

Attachment  
As stated

Attachment (1)

# PERFORMANCE BASED ACQUISITION STRATEGIES AND TOOLS

## POLICY GUIDANCE

In pursuing a performance based strategy, it is essential that our acquisitions for services meet basic standards, as defined by Subpart 37.6 of the Federal Acquisition Regulation (FAR). Specifically that service requirements should be articulated using: results required rather than methods of performance of the work; measurable performance standards (i.e., in terms of quality, timeliness, quantity, etc.); quality assurance surveillance plans; and specific procedures for reductions of fee or price when services are not performed or do not meet contract requirements. In addition to these basic requirements, contracts may also include positive incentives for performance exceeding the minimum standard, wherever appropriate. In essence, PBSAs should articulate clear, measurable requirements emphasizing quantifiable outcomes, with compensation based on performance measured against those outcomes, and integrated with a quality assurance surveillance plan describing how suppliers' performance will be evaluated against those measurable requirements. This allows offerors maximum flexibility to attain the greatest degree of innovation and creativity. Too often, the Department has contracted for services that, in fact, limit the scope of innovation offerors can bring to the process. Studies have documented that services requirements converted to a performance-based approach have generated both significant savings and performance gains.

The appropriate use of performance-based acquisition strategies also enables the Department to turn more readily to commercial marketplaces for required services, using the procedures in FAR PART 12 when the necessary conditions are met. In so doing, the Department can take far greater advantage commercial sources and practices whenever and wherever possible. It may be beneficial to provide contract incentives to contractors based on their performance even in a fixed price environment, as is widely done in the commercial world. Use of frequent performance-based milestone billing schedules to assure appropriate cash flow to performing contractors is encouraged.

## IMPLEMENTATION PLAN

Implementation plans are to be submitted through the Deputy Under Secretary of Defense, Acquisition Reform (DUSD (AR) ) and must address:

- **Effective distribution of guidance and key criteria on PBSA to the widest possible segment of the relevant workforce, i.e., program managers, the requirement community, contract administrators, and any other related functional communities.**
- **Business areas that will be the focus for performance based acquisitions, metrics, and a detailed training plan with milestones.**
- **Method for collecting agency performance data regarding the use of PBSA. (Note: PBSA performance data will be obtained from the Federal Procurement Data System beginning in FY01. Until that time, the requisite data can be collected in whatever manner each individual Military Department of DLA deems appropriate.)**

## **TRAINING INITIATIVES**

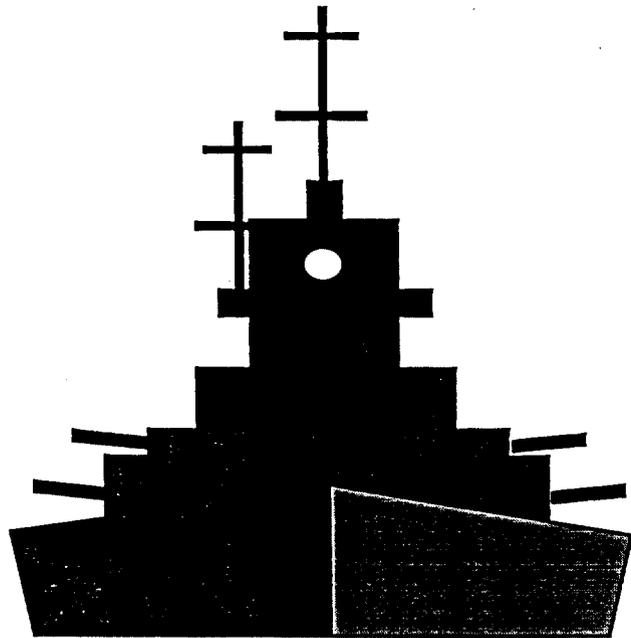
There are a number of initiatives underway to provide specialized training on performance-based acquisitions, applicable and accessible to the widest possible scope of the acquisition and technology workforce. In an effort initiated by the DUSD(AR), each of the Military Departments and DLA participated in the development of a performance-based service acquisition course, which is the product of a collaboration between the National Association of Purchasing Management and the National Contract Management Association. Through the DoD Change Management Center, this course is now available in both a web-based and live on-site versions and is a key component of the DoD continuing education initiative. The Change Management Center also offers this on-site version, coupled with the Rapid Improvement Team process, to develop on-the-job PBSA applications.

## **OTHER DEPARTMENT-WIDE PBSA INITIATIVES**

The DUSD(AR) and the Director, Defense Procurement formed a working group to develop a concise guide on PBSAs. This web-based guide will be available throughout the workforce to ensure a common understanding of the challenges, issues, and benefits associated with PBSAs. The guide will be available in May 2000.

Templates will supplement the guidebook. These templates are examples of good performance-based packages: statements of objectives or statements of work, measurable performance standards, surveillance plans, deduction schedules (if performance falls below minimum standards) and positive incentives. They will be available on-line and will cover an array of service requirement scenarios. Templates will be based on existing best practices and will be made available as they are identified.

**DEPARTMENT  
OF THE  
NAVY**



**PERFORMANCE BASED  
SERVICE ACQUISITION  
IMPLEMENTATION  
PLAN**

June 2000

## ***Background***

The Office of Federal Procurement Policy (OFPP) Policy Letter 91-2 Service Contracting (April 9, 1991) established performance based service contracting methods as the preferred method for the acquisition of services. OFPP Policy Letter 91-2 is implemented at Subpart 37.6 of the Federal Acquisition Regulation (FAR).

As indicated in OFPP Policy Letter 91-2 and FAR 37.6, performance based service contracting methods are intended to ensure that the required performance quality levels are achieved and that total payment is related to the degree that services performed meet contract standards. Performance based contracts—

- describe the requirements in terms of results required rather than the methods of the performance of the work;
- use measurable performance standards and quality assurance surveillance plans;
- specify procedures for reductions of fee or for reductions to the price of the contract when services are not performed or do not meet the contract performance standards; and
- include performance incentives where appropriate.

The Office of Management and Budget has identified use of performance based service contracting methods as a key performance indicator.

By memorandum of April 5, 2000, USD(AT&L):

- directed that at least 50% of all DoD services acquisitions, measured both in total dollars and total contract awards, be awarded using performance based methods by Fiscal Year 2005;
- required the Military Departments and the Defense Logistics Agency to prepare PBSA implementation plans; and
- required that workforce personnel participating on services acquisition teams obtain PBSA training within the next year.

Implementation plans are to address:

- Effective distribution of guidance and key criteria on PBSA to the widest possible segment of the relevant workforce;
- Business areas that will be the focus for performance based acquisitions, metrics and a detailed training plan with milestones; and
- Method for collecting agency performance data regarding use of PBSA.

## ***Assumptions:***

### **1. PBSA Criteria**

For purposes of this Implementation Plan, Department of the Navy contracts must meet the criteria of FAR 37.6 to be categorized as PBSA. Many service acquisitions may contain portions of the effort that cannot be adequately defined to develop measurable performance standards or surveillance plans prior to award of the contract. If, at the time of award, it is estimated that at least 80% of the value of the contract meets the criteria for PBSA, then the contract can be reported as a PBSA contract. The 80% of dollars estimate is consistent with the recommendation of the President's Procurement Executive Council as indicated in Amendment 4 to the Federal Procurement Data System.

For standard commercial services, to the extent they may be tied to performance requirements (FAR 12.202(b)), they may be considered PBSA. Normally, contracts for commercial items or services shall rely on the contractor's existing quality assurance systems. These may substitute for the PBSA quality assurance plans required by FAR 37.601(b) provided they can be tied to measurable performance standards.

This implementation plan applies to service requirements meeting the DD350 reporting threshold of \$25,000 (base and option periods).

### **2. Business Areas**

This implementation plan applies to the following service contract categories:

- a. Maintenance, overhaul, repair, service, rehabilitation, salvage, modernization or modification of supplies, systems or equipment;
- b. Maintenance of real property;
- c. Base operations and support contracts;
- d. Operation of Government-owned equipment, facilities and systems;
- e. Education and training;
- f. Medical services;
- g. Program management support; and
- h. Research and Development (less basic and applied research)

- FAR 35.002 states:

**"The primary purpose of contracted R&D programs is to advance scientific and technical knowledge and to apply that knowledge to the extent necessary to achieve agency and national goals. Unlike contracts for supplies and services, most R&D contracts are directed toward objectives for which**

the work or methods cannot be precisely described in advance. It is difficult to judge the probability of success or required effort for technical approaches, some of which offer little or no early assurance of full success.”

We believe this is true of basic and applied research and may apply to other R&D acquisitions. Department of the Navy program managers and contracting officers are cautioned to look to the nature of the specific requirement, not to the type of money, when considering whether PBSA strategies should apply. For example, while a range operation requirement may be funded with RDT&E dollars, such a requirement can be adequately described in advance and can have measurable performance standards and quality assurance surveillance procedures. Contracts under which both supplies and services can be delivered should be reported based upon the predominant element at time of award.

This implementation plan does not apply to Architect-Engineering (A-E) services (specifically excluded by OFPP Policy Letter 91-2 ) or to construction services.

### **3. Relevant Functional Communities**

All DoN functional communities will participate to institutionalize PBSA philosophy and strategies to ensure meeting the directed PBSA 2005 goals. Within DoN, acquisition communities include Program Executive Officers, Direct Reporting Program Managers, the DoN Contracting activities and subordinate commands receiving acquisition/contracting authority therefrom. Functional communities include, but are not limited to, engineering, logistics, facilities, medical/dental and training.

## ***Current PBSA Policies, Procedures and Initiatives***

DoN supports use of PBSA for services acquisitions where the desired outcomes can be adequately defined, the performance objectives identified, and meaningful performance standards can be established. Current OFPP/OSD policies and guidance on PBSA have been implemented within DoN. Acquisition and contracting officials have been empowered to support PBSA.

Initiatives seemingly unrelated to PBSA may have a significant impact on PBSA. Use of outcome oriented objectives to describe requirements encourages adoption of PBSA. We no longer acquire systems and services to support those systems. Use of Past Performance Information in the source selection process allows the Government to reassess depth and detail of quality assurance plans.

# *Implementation Plan*

The DoN PBSA Implementation Plan three key elements:

## 1. **Widest Possible Dissemination of PBSA guidance**

ASN(RDA) as the DoN Senior Acquisition Executive, is the focal point for implementing PBSA with DoN. RDA has made, and will continue to make, PBSA guidance and criteria available to the DoN to all functional areas of the DoN acquisition community. DoN functional leadership support will be obtained via an ASN(RDA) memorandum providing PBSA guidance and criteria, addressing the 50% implementation goal, and addressing training goals.

## 2. **PBSA Outreach Program**

RDA, through our Acquisition Reform Office (ARO) and Deputy for Acquisition and Business Management (ABM), fields knowledge management programs designed to share latest policy, best practices and appropriate links on a wide spectrum of acquisition and contracting issues. Services contracting—with emphasis on PBSA—is an important element of the RDA knowledge management programs. Performance based tools included in the RDA acquisition outreach program, accessible at <http://www.rda.navy.mil> under ABM or ARO, include:

> Defense Acquisition Deskbook: DAD is an electronic knowledge presentation system providing the most current acquisition policy for all DOD Services and Agencies. Deskbook's extensive reference material includes information on the various functions, disciplines, activities and processes of DoD beginning with "User" requirements, flowing through concept development, program establishment, contracting, testing, production, sustainment, and ending with disposal. Deskbook's database includes over 1000 mandatory and discretionary policy documents, DOD & component discretionary practices, software tools & descriptions, front-line wisdom & advice, formats and samples.

> Integrated Product and Process Development (IPPD) Multimedia Training System: This CD-ROM based multimedia training system includes a discussion of the motivation for IPPD, a generic IPPD methodology and lessons on each of the tools required. Three case studies provide practical experience and lessons learned.

> Integrated Product Team (IPT) Learning Campus: Gaining Acquisition Results Through IPTs: This virtual IPT Learning Campus CD-ROM resource guide sponsored by the ASN(RDA) is intended to help senior managers, and IPT leaders and members improve their understanding of how to make IPTs more effective.

> **Turbo Streamliner:** With the advent of specifications and standards reform initiatives, significant effort has been applied to the generation of automated tools for the construction of performance-based specifications and solicitations. The premiere DoN tool, from a total solicitation perspective is Turbo Streamliner. Another automated tool is "**Turbo SpecRite!**" that represents a cross-service application that will convert requirements to a performance based specification.

> **Navy Service Contracting Guide:** an on-line desk guide of best practices for service contracts. The Guide contains information applicable to the full range of services contracts, from non-technical to professional services. This Guide was prepared from a practical, hands-on, perspective with multiple samples, representing real world cases as opposed to the theoretical or academic.

**Links:** We continuously review and update links to other pertinent webpages. PBSA includes links to ARNET.GOV and the DUSD(AR) homepage.

**Training:** Continuous awareness of issues and initiatives in acquisition and procurement and timely access to training are critical to gaining acceptance of PBSA. There are a number of public and private resources available for PBSA training. In addition to the National Association of Purchasing Management/National Contracting Management Association course (<http://www.ncma-napm.org>), the Air Force has an on-line tutorial on PBSA (<http://www.il.hq.af.mil/aflma>). The Defense Acquisition University, Norfolk Campus, has a PBSA classroom offering. The OSD Change Management Center will arrange for cross-functional teams with a 'real time' requirement to complete the NAPM/NCMA offering as a 2 – 3 day facilitated presentation. PBSA training may be included for meeting Continuous Learning goals.

The OSD Guidebook for Performance Based Service Acquisition in the Department of Defense will be a valuable tool for increasing awareness and understanding of PBSA.

Links to NCMA/NAPM and AF on-line training resources will be added to ABM homepage: ABM On-Line. Information on/links to other training opportunities/lessons learned will be added as they are identified.

The DoN acquisition community has been requested to submit PBSA training plans to ensure that all personnel participating on a PBSA team understand the principles of performance based services contracting.

**Services Summit:** RDA/ABM is exploring possibility of hosting a DoN Services Contracting Summit to promote more widespread use of PBSA. Emphasis will be placed on PBSA performance to-date and initiatives to promote greater PBSA acceptance.

### 3. **Collecting PBSA Data**

The majority of significant services acquisitions to commence in FY 2000 and early FY 2001 are now in process. For many of these, requirements packages have been

submitted, solicitations issued, and, in some cases, proposals are in process or have been received. The full impact of this implementation plan will not be felt in the current acquisition cycle.

To assess DoN effectiveness in implementing PBSA, Heads of Contracting Activities must provide the following information on PBSA accomplishments by October 30 of each year through October 2005. The information should be provided by business area (see above) with a Command summary.

<b>DoN Performance Based Services Acquisition PBSA Contract Awards</b>		
<b>Command:</b>		<b>Period:</b>
<b>Business Area:</b>	<b>Total Estimated Dollars</b>	<b>Total Number Of Actions</b>
Total Service Contract Awards		
PBSA Contract Awards		
PBSA Compliance Rate		

### *Milestones:*

Implementation Plan to USD(AT&L)	30 June 2000
ASN(RDA) memorandum to PEOs/DRPMs/HCA's	30 June 2000
Establish links to NCMA/NAPM and SAF/AQC web-based PBSA training	10 July 2000
Review and up-date additional links	Continuous
RDA Knowledge Management: Updates to promote PBSA acceptance	Continuous
PBSA Performance Reports	30 October 2000 and annually through 2005
PBSA Training Plans	30 October 2000
RDA/ABM Services Contracting Summit	1 <sup>ST</sup> QTR FY 2001