



THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010



SEP 8 1997

ACQUISITION AND
TECHNOLOGY

MEMORANDUM FOR THE SECRETARIES OF THE MILITARY DEPARTMENTS

SUBJECT: Deriving Cost Benefits Through Competitions for DoD Depot Maintenance Work

About one-third of the Department's depot-level maintenance program for weapon systems and equipment is currently accomplished under contracts awarded to private sector sources. We need to ensure that the Department achieves the economies associated with effective competition for this depot-level maintenance work, to the maximum extent practical. At the same time there must be a focus on minimizing the transaction costs (e.g., workload identification, statement of work development, contract administration, and contract oversight) attendant to competed workload support. We recently revised the policy for conducting depot maintenance public-private competitions, but we must now also address workloads that have already been competed (or otherwise awarded) within the private sector. Additionally, we must maintain our focus on reducing total costs incurred to support DoD weapon systems and equipment.

A substantial portion of our depot-level maintenance requirements are acquired under private sector contracts awarded using other than full and open competition (often sole source). We believe that DoD must maximize efforts to obtain effective competition for depot-level maintenance not required to be performed in-house to sustain core capabilities (10 USC 2464), in order to achieve the greatest overall benefits. Therefore, as current contracts for depot-level maintenance expire, the following steps should be taken to maximize competitively-derived depot maintenance support:

- Identify, evaluate, and eliminate barriers to effective, broader-based competition.
- Subject to the Deputy Secretary of Defense memorandum dated October 28, 1996, "Consolidation of Contract Requirements" (attached), consider combining multiple workload requirements when this approach will improve the opportunities for effective competition; such combination can be based on similar technologies or processes or any other synergistic grouping.
- Encourage and incentivize private sector sources to provide integrated support across a number of logistics processes, technologies, or support requirements that complement specific depot maintenance workloads.
- Enhance workload attractiveness by including related logistics workloads currently being done in organic depots.

Steps should also be taken to reduce related transaction costs and to establish viable, responsive, communication channels with commercial depot-level maintenance contractors.

Within practical limits the Department should eliminate existing barriers and impediments to full and open, and effective, competition for depot-level maintenance. Each current or potential noncompetitive depot-level maintenance contract should be reviewed to determine the feasibility of establishing or enhancing effective competition. If DoD owns the requisite technical data and equipment, then every reasonable effort should be made to ensure that effective competition is achieved. When the required technical data is proprietary, the Department should, within reason, attempt either to obtain rights to the data or to develop the necessary data itself. Similarly, elimination of other barriers should be approached in an aggressive manner. In addition to any applicable legal requirements concerning competition by public depots (e.g., 10 USC 2469 and 2470), consideration should be given to having organic depots compete when there is not likely to be effective competition among private sector sources. Such action should be considered in the context of a business case analysis that evaluates the potential market and impediments to competition; actual public-private depot maintenance competitions will be carried out in accordance with established Departmental policies and applicable law.

Another of the Department's related key goals is to reduce the operating and support (O&S) costs for its weapon systems and equipment. Therefore, depot maintenance workload managers (within major/management commands, inventory control points, and/or program offices) should, whenever practical, integrate goals to reduce O&S costs in maintenance contracts. Approaches to reduce O&S costs may include such initiatives as technology insertion or process improvements. Contracts for depot maintenance work should incentivize the contractor to reduce overall long term O&S costs, and provisions for doing so should be a principal part of best value criteria and evaluations. Similarly, if organic depots are awarded competitive workloads, a portion of the O&S cost reductions they achieve should be made **available** to improve depot processes, e.g., procure more efficient equipment, reengineer product lines, consolidate work, or eliminate excess capacity.

Department personnel working in both logistics and acquisition are responsible for implementing the policies outlined in this memorandum. Those responsible for materiel management, contracting, program management, and maintenance will take the initiative to carry out the practices and procedures necessary to implement effectively this policy guidance. The Deputy Under Secretary of Defense for Logistics is responsible for incorporating this guidance into appropriate DoD publications and for monitoring policy implementation.



R. Noel Longuemare
Acting **Under** Secretary of **Defense**
(Acquisition and **Technology**)

Attachment:
As stated



DEPUTY SECRETARY OF DEFENSE

1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010



28 OCT 1996

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Consolidation of Contract Requirements

The Department of Defense (DoD) recognizes the critical role small, small disadvantaged, and women-owned small businesses play in DoD's ability to accomplish its mission- Thus, DoD is committed to fostering the use of the small business community in every aspect of its vendor base.

When we plan for the consolidation of several contracts or requirements into a single larger contract, we must consider the impact on small, small disadvantaged, and women-owned small businesses- I would like to emphasize the policy considerations that must be taken into account when contracts or requirements of a kind suitable for performance by small business are proposed for consolidation:

1. Requirements shall be packaged so as not to preclude performance by small, small disadvantaged, and women-owned small business concerns as prime contractors unless the consolidation will result in significant benefits in terms of reduced life cycle costs, improved services, or both. Any such determination shall be supported by market research analysis. The proposed consolidated procurement must be reviewed by the Small Business Administration procurement center representative in accordance with the Federal Acquisition Regulation (FAR) 19.202-1(e) if it is not set aside for small business. Any disagreements between the contracting officer and the procurement center representative should be resolved pursuant to FAR 19.505. Savings solely in the Department's cost of awarding or administering contracts is not sufficient basis for consolidation.

2. Solicitations for goods and services that would have previously been set aside for small or small disadvantaged businesses shall be reviewed for set aside under the order of precedence requiring consideration of award under section 8(a), or set aside under section 15 of the Small Business Act, prior to being included in a consolidated requirement.

3. Prior to contracting for a new requirement or a follow-on to an existing requirement, particularly for professional and technical services, the contracting officer shall conduct an analysis to determine if consolidation provides significant benefits. Prior to the exercise of an option, the contracting officer shall conduct such an analysis if the analysis was not conducted at the time of initial award. For each circumstance, if the analysis indicates consolidation will not provide significant benefits, the contracting officer shall break out tasks for competition. The awards shall be consistent with the order of precedence in the Defense Federal Acquisition Regulation Supplement (DFARS).

4. If it has been determined that consolidation of tasks will result in significant benefits, small, small disadvantaged, and women-owned **small** business firms shall be afforded the maximum opportunity to **participate** as direct **awardees** (**particularly** when multiple awards **are** anticipated) of portions of the proposed **consolidated** requirement. **When** establishing subcontract goals for the consolidated contract, the contracting officer shall consider the proportion, type, and **level** of sophistication of **work** previously awarded to small, small disadvantaged, and **women-owned** small business firms. The extent of **small**, small disadvantaged, and **women-owned** small business participation in contract performance shall be addressed during source selection, consistent with DFARS 215.605. **The** contracting officer shall consider using the incentive and award fee provisions in DFARS 219.708 to maximize both the magnitude and **level** of sophistication of work subcontracted to small, small disadvantaged, and women-owned **small** businesses.

5. This policy statement supersedes the policy statement signed by the Deputy Secretary of Defense, dated 1 June 1982, subject, 'Consolidation and Small Business.'

A handwritten signature in black ink, appearing to be "J. J. [unclear]", with a horizontal line extending to the right.