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AIR UNIVERSITY

AIR FORCE AIRCRAFT MAINTENANCE OUTSOURCING  
AND PRIVATIZATION: A BONANZA OR A BUST?

by

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## *Preface*

Outsourcing and Privatization is an expanding part of the Air Force's way of doing business. However, despite its growing affect on Air Force personnel it is only vaguely recognized and understood by much of the Air Force. I've spent my career in acquisition with one assignment to an Air Logistics Center...outsourcing and privatization will affect me in the future from both an acquisition and logistics standpoint. I selected outsourcing and privatization of Air Force aircraft maintenance for three reasons. First, I wanted to collect reliable data that would quantitatively show that outsourcing and privatization of aircraft maintenance was successful and thus a smart thing to do. Second, I wanted to learn more about this "leading edge" program so I could be in a better position to make decisions regarding outsourcing of government work, including aircraft maintenance. Third, I wanted to gather current and pertinent information about outsourcing and privatization and put it in a single paper so I may help educate Air Force personnel and help them better understand the changes they're living.

I would like to thank Major Tony Williams, my ACSC faculty research advisor. His insights and guidance were most helpful. I would also like to thank Lt Col Donna H. Parry, Deputy Chief Outsourcing & Privatization Division, Directorate of Manpower, Organization, and Quality, at the Pentagon. She carved scarce time out of her busy schedule to discuss outsourcing and privatization with me and provide me the most current policy information available.

### *Abstract*

The increased use of outsourcing and privatization (O&P) represents a fundamental change in how the USAF does business in fulfilling its role of ensuring the Nation's security. A decreasing USAF budget and manpower without a corresponding decrease in operations tempo has forced the USAF to find innovative methods to accomplish its mission and save scarce dollars for modernization programs. The lengthy procurement process for major new weapon systems demands the Air Force invest *now* in force modernization so a capable USAF will exist in the future. Properly executed O&P initiatives saves manpower and dollars, and enables the Air Force to focus its dwindling budget on supporting the warfighter.

I'll show that O&P of aircraft maintenance saves manpower and money, yet still provides world-class support to the warfighter. The savings enable the Air Force to focus its limited budget on items that support the warfighter...now and in the future. Further, I'll show that if properly planned and managed O&P will significantly reduce the logistics "tail" without adversely affecting the warfighting "teeth." This paper is presented to prove this thesis. In Chapter 1, I'll explain the big picture of O&P, in Chapter 2 I'll cover the laws and rules guiding O&P while emphasizing aircraft maintenance. Then in Chapter 3 I'll discuss the A-76 study process (the most used outsourcing process) in detail. In Chapter 4 I'll supply the views (both pro and con) articulated by various high-level studies and leaders. Next, in Chapter 5 I'll provide

qualitative data from real world experiences with outsourcing of aircraft maintenance. Finally, in Chapter 6 I'll submit my conclusions drawn from the material presented.

Research methods used to complete this paper were books, periodicals, studies, reports, speeches, and interviews with Air Staff and Major Command level personnel involved in the formulating and/or implementing Air Force outsourcing guidance.

## Chapter 1

### What is Outsourcing and Privatization?

*The question that faces the strategic decision-maker is not what his organization should do tomorrow. It is: "What do we have to do today to be ready for an uncertain tomorrow?"<sup>1</sup>*

—Peter F. Drucker

#### Introduction

The peace dividend extracted from the United States Armed Services after the end of the Cold War has decreased budgets and manpower. Between 1990 and 1997, the DOD budget has been cut 31.5 percent, in base year 97 dollars.<sup>2</sup> During that same timeframe, the DOD has reduced its civilian workforce by 26 percent and the number of active duty service members by 29 percent.<sup>3</sup> The Air Force's share of these cuts have resulted in loss of force structure, both people and equipment, and funding. Since fiscal year (FY) 1985 the Air Force Total Obligation Authority (TOA) has dropped 50 percent, from \$121M to \$60M, and Air Force personnel cuts are about 30 percent.<sup>4</sup> Additionally, between 1985 and 1996, the Air Force procurement budget was slashed, it declined about 68 percent in real terms.<sup>5</sup> This resulted in new weapon systems not being bought and older weapon systems having their lives extended. The upkeep of older weapon systems is expensive. In fact, the funding need to support these systems accounts for nearly 70 percent of the defense budget.<sup>6</sup> This reality has forced the DOD and the Air Force to find new ways of

doing business to reduce the support bill, find funding to continue force modernization, and still provide the warfighter with world-class support. This precipitated the increased use of outsourcing and privatization (O&P) to save manpower and money. I'll reflect how O&P saves manpower and money and produces a quality product for the Air Force. Specifically, I'll show outsourcing of aircraft maintenance, when properly planned and managed, can significantly reduce the support bill without sacrificing quality. The first step of this journey is to ensure a common understanding of O&P; therefore some key terms are defined below.

### Key Terms

**Outsourcing** is the sourcing of a new requirement or transfer of an activity that has been performed in-house to an outside provider. The Air Force retains *full control* and *responsibility* (through service contracts) of the recurring services or functions, which are outsourced. **Privatization**, by contrast, is the *transfer of ownership* of function(s), business assets or both (e.g. government-owned plant and equipment) from the public to the private sector.<sup>7</sup> Said differently, in outsourcing, the government retains ownership, oversight, and control over operations of the activity; in privatization, the government divests itself of the entire process, including all assets and has *no* control over the operations of the activity.

**Commercial activity** is an Air Force function that provides a product or service obtainable from a commercial source.<sup>8</sup> This may range from base photography and graphics to flight line maintenance.

**Governmental function or inherently Governmental function** is a function, which is so intimately related to the public interest as to mandate performance by government

employees.<sup>9</sup> This includes activities that require either the exercise of discretion in applying governmental authority or the use of value judgements in making decisions for the government. In other words, governing can't be outsourced.

CORE is the depot maintenance capability maintained within organic defense depots to meet readiness and sustainability requirements of the weapons systems that support the JCS contingency scenario(s).<sup>10</sup> Simply said, CORE represents the minimum amount of maintenance capability that the Air Force must maintain in organic depot facilities to ensure that contingency operations are not compromised because of a lack of essential depot maintenance support.

In essence, outsourcing of Air Force aircraft maintenance is contracting with a commercial source to perform the tasks previously done by Air Force personnel. The critical areas are in properly and completely describing the tasks to be performed and continuously monitoring the contractor's progress to ensure compliance with the taskings. In the chapter introduction I covered some of the draconian cuts the Air Force has experienced in manpower and funding since FY 1985. These cuts have forced the Air Force to answer the question, "What do we have to do today to be ready for an uncertain tomorrow?" Part of the answer is to "free-up" funding for force modernization by outsourcing so a credible and capable Air Force will exist in the future. Choosing not to modernize will produce a second-rate Air Force who can't contribute to the national security objectives of the United States of America.

This quick brush of key O&P terms sets the stage, now lets see the laws and other guidance that governs the use of O&P by the Air Force. That is, how can O&P be used.

## Notes

<sup>1</sup> Drucker, Peter F. Quotes available from  
<http://btlabs1.labs.bt.com/people/chochrap/quote.htm>

<sup>2</sup> Northington, Brigadier General Larry. "Outsourcing and Privatization" briefing HQ USAF/XPM, October 1997.

<sup>3</sup> Warren, David R., Director, Defense Management Issues, National Security and International Affairs Division. Testimony before the Subcommittee on Readiness, Committee on National Security, House of Representatives. *Defense Outsourcing Challenges Facing DOD as it attempts to Save Billions in Infrastructure Costs*. 12 March 1997. 9

<sup>4</sup> Northington, Brigadier General Larry. "Outsourcing and Privatization" briefing HQ USAF/XPM, October 1997.

<sup>5</sup> Defense Issues, volume 11, number 30. *"Improving the Combat Edge Through Outsourcing."*

<sup>6</sup> Weible, Jack. "Cohen wants Reform of Defense Business Practices" Army Times, 27 October 1997 Activities Program, The Federal Benchmark for Competing Recurring Services" 8

<sup>7</sup> Air Force Policy Directive (AFPD) 38-6. *Outsourcing and Privatization*, 1 September 1997. 8

<sup>8</sup> Air Force Policy Directive (AFPD) 38-6. *Outsourcing and Privatization*, 1 September 1997. 7

<sup>9</sup> OMB Circular No. A-76 and A-76 Supplement: Appendix 6. Executive Office of the President, Office of Management and Budget. Washington D.C. 4 August 1983 and 22 May 1992. Available at

<http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a076/a076.html> and  
<http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a076/a076sa6.html>. 2

<sup>10</sup> Office of the Secretary of Defense. Report to Congress. "Policy Regarding Performance of Depot-level Maintenance and Repair for the Department of Defense" March 1996.

## Chapter 2

### Laws and Guidance of Outsourcing and Privatization

*Lest you think this is a new phenomenon, let me take you back to the years before World War I when private support was standard. It was only during the Cold War when we realized the huge buildup of government operations that we came to think of government support as the norm. In a sense, we're going 'back to the future.'*<sup>1</sup>

—Sheila E. Widnall  
Former Secretary of the Air Force

The Air Force may be “going back to the future,” but the administrative baggage has increased over the years. The laws, directives, and policies guiding O&P are many.

#### Statutes

There are many statutory impediments to the use of O&P. Figure one summarizes the statutory provisions that decrease the flexibility of the DOD in applying outsourcing. The statutory restrictions place Congress in an oversight role in which they are given the opportunity to stop an outsourcing effort at many stages in the process. This potential for micromanagement could discourage O&P efforts because the process is long and arduous. The complex web of approvals and restrictions posed by these laws serve to challenge the Air Force as it expands its outsourcing program. The Air Force must walk the tightrope of saving money, meeting costs, meeting schedule, and meeting performance, while complying with each of the laws imposed by Congress. Although

statutory relief could speed outsourcing efforts, it's doubtful Congress would relinquish their control of the process because *they* must answer to their constituents when DOD jobs leave their district or state. That is, re-election is sacrosanct to most members of Congress, and unhappy constituents don't reelect incumbents.

Citation	Summary
Title 10 United States Code 2461 (10 USC 2461)	Mandates exhaustive analysis and reporting prior to outsourcing any function performed by more than 45 DOD employees. Includes advance notice to Congress an outsourcing study is anticipated; a detailed cost comparison study; the development of a government "most efficient organization" against which private sector cost projections must be compared; an economic impact study; and an advance notice to Congress of the intent to outsource the function.
10 USC 2464	Logistics requirements defined as "core" by the Secretary of Defense cannot be outsourced and Congress must be notified when a function is reclassified as non-core.
10 USC 2465	Prohibits outsourcing of civilian firefighting or security guard functions at military bases
10 USC 2466	No more than 40% of the funds available for depot level maintenance may be outsourced. The "60/40" rule governing the allocation of depot maintenance workload.
10 USC 2469	Must conduct a public/private competition to outsource any depot level maintenance workload >\$3M.
Sec 8020, FY96 Appro Act	Must complete a "most efficient organization (MEO)" analysis to outsource functions done by >10 civilian employees. The MEO must be certified by the Congressional Committee on Appropriations.
Sec 8043, FY96 Appro Act	No funds for A-76 studies which exceed 24 months for one function or 48 months for >1 function.
Sec 317, FY87 Auth Act	Prohibits contracting out any function at McAlester or Crane Army Ammunition Plants.

**Figure 1. Laws Pertaining to O&P<sup>2</sup>**

These laws put Congress in the middle of O&P decisions and purposely limit the flexibility of the services.

## **Federal Policy**

The next level of guidance on O&P comes from the Office of Management and Budget (OMB) in the form of OMB Circular N° A-76 and its supplement. This circular establishes Federal policy regarding the performance of commercial activities. The supplement sets forth the detailed procedures for determining whether commercial activities should be performed under contract with commercial sources or in-house using government facilities and personnel.<sup>3</sup> Essentially, this circular directs developing an estimate of the costs of government performance of a commercial activity and comparing it to the cost to the government for contractor performance of the activity. This cost comparison is called an A-76 study and forms the basis for any O&P decision.

## **DOD Policy**

In March 1996 the office of the Secretary of Defense provided a report to Congress (mandated by the National Defense Authorization Act for FY96) on the DOD policy regarding performance of Depot level maintenance and repair for the DOD. A review of the report and some key policies on outsourcing aircraft maintenance will help clarify the O&P picture. The report focuses on Depot level maintenance not field level maintenance, and as such it is limited by Title 10 USC 2469, the 60/40 rule.

Three of the 31 policies outlined in the report stand-out as directly addressing O&P:

- 1) Make "best value" a primary consideration in satisfying workload requirements other than those necessary to sustain CORE capabilities,
- 2) Use evaluation procedures for depot maintenance workload competitions that provide, in the case of private sector competitions costs for all competitors, and in the case of public sector-private sector competitions, comparable as well as comprehensive costs for the public sector, and
- 3) Plan

on supporting new or developing weapon systems in the private sector consistent with DOD CORE policy.<sup>4</sup>

It's obvious from the highlighted policies that DOD sees outsourcing of Depot level maintenance inevitable, outsourcing *will* be the normal way of doing business in the future. In short, the guidance is that in a competition for workload, use a structured approach to compare like costs and select a winner based on best value (not simply lowest cost), provide first-rate service to the warfighter, and plan on using outsourcing for workload above CORE (the 60/40 rule). Organic capabilities will exist to do CORE workload and the small portion of workload that private industry chooses not to compete (viewed as not profitable). The remaining workload will be outsourced to private industry and monitored by government personnel to ensure compliance with contract provisions.

### **Air Force Policy**

The Air Force recently published its Outsourcing and Privatization policy in Air Force Policy Directive 38-6 dated 1 September 1997. The Air Force O&P program establishes policy and guidance for institutionalizing the Air Force's optimum use of private and public resources to meet its mission requirements. The directive spells out the four principal goals of O&P are to: 1) sustain readiness, 2) improve performance and quality by doing business more efficiently and cost-effectively, 3) generate funds for force modernization, and 4) focus personnel and resources on core Air Force missions.

The bottomline for the Air Force O&P program is to save substantial amounts of money by doing business more efficiently and cost effectively to fund force modernization, while meeting the warfighter's readiness and sustainability requirements.

Clearly the statutes limit the flexibility of the Air Force O&P program and interjects the US Congress as an overseer. The federal policy explains how to apply O&P by providing a highly structured prescriptive process that must be used before outsourcing may occur. The DOD policy on Depot level maintenance pushes to expand outsourcing in this area, but constrains outsourcing by establishing requirements that must be met. Finally, the Air Force policy complements previous guidance and elaborates on why the Air Force must increase its outsourcing efforts, it doesn't tell how to do it.

The message is clear, outsourcing will happen, but with oversight and within a smart, well-defined process (A-76 study) designed to be fair and produce a best value contract capable of meeting the warfighters' needs. This must be accomplished at lower cost than in the past.

Because the mandated A-76 study is so crucial to any outsourcing decision, the next chapter will explain the A-76 process in detail.

#### Notes

<sup>1</sup> Widnall, Shelia E., Former Secretary of the USAF, "Privatization—A Challenge of the Future," Remarks at the Base and Civic Leader Dinner, McClellan Air Force Base, California, 7 February 1996.

<sup>2</sup> Office of the Under Secretary of Defense for Acquisition and Technology. Report of the Defense Science Board Task Force on Outsourcing and Privatization. Washington, D.C., August 1996. 37a, 38.

<sup>3</sup> OMB Circular No. A-76 and A-76 Supplement: Appendix 6. Executive Office of the President, Office of Management and Budget. Washington D.C. 4 August 1983 and 22 May 1992. Available at

<http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a076/a076.html> and <http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a076/a076sa6.html>. 1

<sup>4</sup> Ibid.

## Chapter 3

### Outsourcing and Privatization Process

*Remember nothing that's good works by itself just to please you. You've got to make the damn thing work!*

—Thomas A. Edison

The Office of Management and Budget (OMB) Circular N<sup>o</sup>. A-76, Performance of Commercial Activities, introduced in Chapter 2 directs the use of cost comparison studies in an outsourcing decision. This is the fundamental building block on which the entire outsourcing process rests.

However, people make the process work, and an understanding on how it works will enable you to contribute if called upon to do so. The outsourcing process begins with the identification of potential candidates for outsourcing; the Major Command nominates activity(s) for cost comparison. Then, by law, congress is notified and a public announcement made. Next, the government prepares the performance work statement (PWS). The PWS is a statement of the technical, functional and performance characteristics of the work to be performed. It serves as the scope of work and is the basis for all costs entered on the cost comparison form.<sup>2</sup> It spells out the government requirements that will be performed by the in-house workforce or a contractor at the conclusion of the cost study. It is the most crucial part of the process because it is the basis of both the in-house and contractor bids.<sup>3</sup> The PWS should reflect what needs to

be done, not how to do it. This is a critical part of the process, if this is done incorrectly the results of the study are likely to be useless.

Next, the government creates a Quality Assurance Surveillance Plan (QASP). The QASP is the government's oversight plan to inspect contract or in-house performance to determine if service meets required quality and quantity standards. The plan describes methods of inspection to be used, the reports required, and the resources to be employed, with estimated work hours. Like the PWS, the surveillance plan must focus on outcomes, not on how to do a particular thing. For instance, rather than inspecting the finished product for defects (how something was done), inspect a contractor's plan to ensure the contractor has a complete, well thought out plan and that the plan is being followed (the outcome of following a well designed plan will be a quality product). This would take less effort on our part and would put the onus on the contractor to ensure outputs meet stated requirements.<sup>4</sup> As with any oversight guidance, it is important the QASP be fair, unbiased, and measurable—it's the contractor's report card to the government.

While the contractor is preparing his solicitation for the potential work in accordance with Federal Acquisition Regulations (FAR), the government is preparing its bid. The government describes the Most Efficient Organization (MEO). That is, a MEO is the government's in-house organization who will perform the commercial activity. The members of the work force undergoing the A-76 study build the MEO—this is where those members are given the opportunity to compete for their jobs.<sup>5</sup> The MEO is the in-house plan to perform the work, including the organizational structure, resources required (manpower, dollars, facilities, equipment, etc.), work processes, and so on. The key requirement of the MEO is that it is traceable to the PWS and is based on the same

workload. The objective of the MEO is to find new, innovative, and creative ways to provide the required services in a cost-effective manner. The MEO becomes the basis of the government estimate for the cost comparison.<sup>6</sup> Simply put the MEO documents the improvements the government will make in a commercial activity because of competition. These improvements, from the government or contractor winner, yield the manpower and dollar savings generated by outsourcing.

Next, the government creates an in-house cost estimate (IHCE) that estimates the cost of the government in-house performance of a commercial activity. Fundamentally the IHCE is the price-out of the MEO. The IHCE is a statement of how much it will cost the government to perform the work identified in the PWS using the methods and organization identified in the MEO. The IHCE is developed using an automated program called COMPARE. This software is designed to ensure all elements of cost are included and accurately priced.<sup>7</sup>

The government bid is finished when it is independently reviewed by base comptroller personnel to certify its accuracy, reasonableness, currency, and completeness.<sup>8</sup>

The contractor solicitation responds to the PWS by describing how the contractor will accomplish the work and the associated costs. The contractor solicitation process is governed by the FAR. The FAR provides detailed guidance on the solicitation process with the goal of having an open and fair competition, resulting in the overall best value for the government.

Then, the government and contractor solicitations are given to the appointed source selection authority (SSA). The SSA makes the final determination regarding who is

awarded the contract, the in-house government or the private sector. If a bidder doesn't agree with the decision of the SSA a formal protest may be filed through the administrative appeals board. The bids are reviewed and the SSA's decision is confirmed or overturned based on if the guidance (FAR) was adhered. A successful competition has a defensible process, is standardized, understood by all parties, acceptable by the parties and disciplined (withstand GAO audit). The process described meets the criteria to be successful and has been exercised many times. Between 1978 and 1994, the Department [of Defense] conducted about 2,000 A-76 cost comparisons.<sup>9</sup> Figure 2 is a graphical representation of the process.

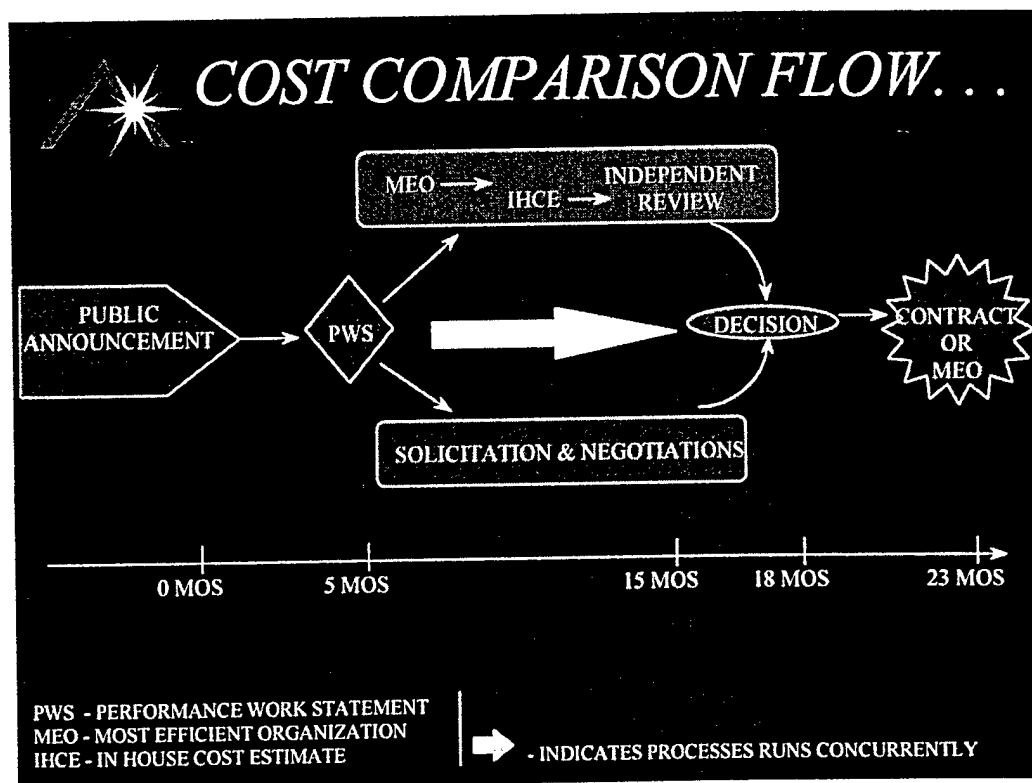


Figure 2 A-76 Cost Comparison Flow<sup>10</sup>

We've covered the terms describing O&P is, and looked at, *who* does outsourcing, *what* may be outsourced, and *when* something may be outsourced. We touched briefly on

why outsource. The next chapter will present various perspectives of outsourcing from studies, DOD and Air Force leaders, and business to provide insight into management's view why outsourcing should expand and what is the future direction of outsourcing.

### Notes

<sup>1</sup> Edison, Thomas A. Available from [http://www.physlink.com/q\\_archive.html](http://www.physlink.com/q_archive.html)

<sup>2</sup> Kessel, Colonel Jacob. "Counting the Costs." *Leading Edge*, August 1997. Available at [http://afmc.wpafb.af.mil/organizations/HQ-AFMC/PA/leading edge/aug97/counting.htm](http://afmc.wpafb.af.mil/organizations/HQ-AFMC/PA/leading%20edge/aug97/counting.htm)

<sup>3</sup> Air Force Center for Quality Management Initiatives Outsourcing and Privatization Division. "Commanders Handbook on Outsourcing & Privatization November 1997. Available at <http://www.afcqmri.randolph.af.mil/>.

<sup>4</sup> Air Force Center for Quality Management Initiatives Outsourcing and Privatization Division. "Commanders Handbook on Outsourcing & Privatization November 1997. Available at <http://www.afcqmri.randolph.af.mil/>.

<sup>5</sup> Kessel, Colonel Jacob. "Counting the Costs." *Leading Edge*, August 1997. Available at [http://afmc.wpafb.af.mil/organizations/HQ-AFMC/PA/leading edge/aug97/counting.htm](http://afmc.wpafb.af.mil/organizations/HQ-AFMC/PA/leading%20edge/aug97/counting.htm)

<sup>6</sup> Air Force Center for Quality Management Initiatives Outsourcing and Privatization Division. "Commanders Handbook on Outsourcing & Privatization November 1997. Available at <http://www.afcqmri.randolph.af.mil/>.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Forces Privatization and Outsourcing Symposium, Crystal Gateway Marriott, Arlington VA. 24 April 1997 Available at <http://www.acq.osd.mil/ousda/speech/outsourcing.html.1>

<sup>10</sup> Andrew, Annie. "Air Force Commercial Activities Program...The Federal 4444Benchmark for Competing Recurring Services" HQ USAF/XPMR, April 1997.

## Chapter 4

### Perspectives on Outsourcing and Privatization

*The most successful businessman is the man who holds onto the old just as long as it is good, and grabs the new just as soon as it is better.<sup>1</sup>*

—Robert P. Vanderpool

It's time we let go of the old way of doing business, and grab onto outsourcing as a new and better way of doing business. The potential to save is there, one need only let go of government doing it all, and grasp onto outsourcing activities that make sense. The views of experts and leaders that follow will show that the shift to outsourcing has begun.

#### Commission on Roles and Missions Perspective

The report of the 1995 Commission on Roles and Missions (CORM) of the Armed Forces, makes two strong recommendations on outsourcing aircraft maintenance. It states the Air Force should: 1) outsource all commercial type support activities (aircraft maintenance would be in this category), and 2) the DOD move to a depot maintenance system relying on the private sector.<sup>2</sup> In other words, maximize the use of outsourcing to include Depot level maintenance of aircraft...grab onto the new.

#### 1996 Defense Science Board Perspective

The 1996 Defense Science Board echoes sentiment of the CORM, "In the view of the task force, most support functions involving commercial-type activities should be

performed by outside vendors, including those activities currently being performed by military personnel.”<sup>3</sup> The DSB is very aggressive in it’s future for outsourcing, they recommend the 60/40 rule for Depot level maintenance be revoked. This is entirely outside of their control and as I stated earlier, a virtual impossibility—Congress will stay in the decision cycle.

### **Air Force Perspectives**

Change occurs in an organization when senior leadership supports the change and “sells” it to the rank and file--outsourcing is no different. Leadership is pro-outsourcing, the current Secretary of Defense, Mr. William Cohen when referencing DOD outsourcing and privatization initiatives said, “Corporate America has made the kind of efficiencies that have to be made in the Pentagon.”<sup>4</sup> Mr. Cohen sees outsourcing as a better way of doing business that can save the DOD money and manpower.

Another DOD perspective comes from the Former Under Secretary of Defense for Acquisition and Technology, Dr. Paul G. Kaminski, who said, “Outsourcing is just one part of an entire suite of efficiency-oriented defense reform initiatives that the Department is implementing. These initiatives are generating savings for modernization, improving readiness, and improving quality of life and efficiency of warfighter support. If done correctly, outsourcing will not only save us money, it will help us build the kind of organization we want DOD to be: an organization that thrives on competition, innovation, responsiveness to changing needs, efficiency and reliability.”<sup>5</sup> It’s apparent that Dr. Kaminski believes DOD must become a leaner, more efficient and effective organization that is agile and able to serve the warfighter faster, better and cheaper. The bottomline is that support to the warfighter *must* continue to be excellent.

Next, the former Air Force Chief of Staff General Fogleman, said, "The Air Force is committed to pursuing outsourcing and privatization initiatives across our service. Global Engagement—our new strategic vision for the first quarter of the 21<sup>st</sup> century—endorses these efforts as a means to increase the efficiency and effectiveness of Air Force functions. As a result, we will have to focus our limited resources on generating combat capability while seeking to eliminate inefficiencies in all Air Force-run activities. If the commercial sector is suitable and can perform those activities better and more economically than we can, then we should turn to them whenever possible. The bottom line is that outsourcing and privatization will be central to our ability to do business in the future."<sup>6</sup> Stated differently, outsourcing can enable the Air Force to sustain the readiness of its forces by providing the best possible support at least cost. Further, it's implied that outsourcing will reduce the support burden and generate savings that can be invested in modernization programs.

It's obvious that all levels of Air Force leadership see O&P as a better way of doing business. Outsourcing will streamline our support structure and increase efficiency and effectiveness. It will save money and still provide world-class support to the warfighter.

### **Business Perspectives**

The Outsourcing Institute, a private company, conducted a series of surveys starting in 1991 that included over 1,200 companies. I want to briefly cover the reasons businesses outsource for 2 reasons: 1) to show that businesses that live or die because of profits are moving toward outsourcing as a common practice—it makes financial sense, and 2) the Air Force's reasons for outsourcing have a strong correlation to the business reasons—it makes financial sense for the DOD and the Air Force.

N <sup>o</sup> .	Reason	Details
1.	Improve Company Focus	Lets the company focus on broader issues while having operational details assumed by an outside expert. Company can focus on meeting the customers' needs.
2.	Access to World-Class Capabilities	Can bring extensive worldwide, world-class capabilities to meeting the needs of their customers.
3.	Accelerate Reengineering Benefits	Immediately realize the benefits of reengineering by having an outside organization – one that is already reengineered to world-class standards – take over the process.
4.	Share Risks	Outsourcing providers make investments not on behalf of one company, but on behalf of their many clients. This sharing reduces the risk to any single company
5.	Free Resources for Other Purposes	Permits an organization to redirect its resources from non-core activities...usually people.
6.	Make Capital Funds Available	Reduces the need to invest in non-core business functions.
7.	Cash Infusion	Often involves the transfer of assets from the customer to provider.
8.	Reduce and Control Operating Costs	Access to provider's lower cost structure.
9.	Resources Not Available Internally	Outsource rather than buy a capability.
10	Function Difficult to Manage or Out of Control	Need to understand root cause of a problem. Passing the buck doesn't eliminate the problem.

**Figure 3 Top Ten Reasons Businesses Outsource<sup>7</sup>**

Although motivated differently, the reasons businesses and the Air Force outsource correlate well. Businesses outsource to enable themselves to better focus on meeting customer needs, the Air Force does so to focus on core tasks—support the warfighter's needs (our customer). Both private businesses and the Air Force outsource to take

advantage of available expertise to allow the organization to reduce infrastructure. In the Air Force's case this means absorbing manpower cuts while maintaining a viable support structure: Both businesses and the Air Force outsource to save money so it may be redirected elsewhere, for the Air Force this is puts needed funding into force modernization.

Business' experience with outsourcing and the limited Air Force results lead to a tentative conclusion that outsourcing is a sound business decision that produces positive results.

### **User Perspective**

In an interview with Mr. Robert Hemp, HQ AETC/LGMMA, he said, "We have accepted it [O&P] as a way of doing business in the aircraft maintenance world - not really by choice, but mandated by law. Contractors, by and large, provide the support to meet our needs, at a quality that is on par with any blue suit organization, and still makes a profit for their corporate headquarters. Most in this process is how well we convey our desires for production levels in the statement of work or performance work statement. The success or failure of any contract is contingent upon a well defined work requirement"<sup>8</sup> (the PWS was discussed in Chapter 3).

Mr. Hemp believes that flexibility is available through an outsourced effort, but it comes at a cost. Further, the workforce is fairly constant, even if a new contractor wins a follow-on competition. That is, a maintenance organization may change contractors; however, the workers remain in tact, making only a uniform patch change while the top 3 or 4 manager change.

The bottomline is outsourcing and privatization has produced savings for the Air Force and AETC in particular. However, outsourcing and privatization is a team effort, everyone must be involved, including the Congress and senior DOD and Air Force officials, to understand that when you commit to this business practice, it becomes a "must pay" bill. That is, the Air Force must pay its contracting bills, and the funds set aside for this bill reduces the flexibility of the Air Force respond to funding cuts. A reduction in Air Force TOA cannot be spread to the outsourcing contracts; savings must be generating by decreasing operations, cutting modernization and ongoing programs, or force structure—all painful choices.

### Recap

It's apparent that senior DOD and Air Force leaders are pushing to implement O&P programs so our business efficiencies and effectiveness may improve. This will decrease our infrastructure and overhead, increase our flexibility, and *most importantly* increase the dollars available for modernization programs. The front line worker accepts O&P as a juggernaut, but also sees the advantages of properly applying it. O&P is working, and can work for greater numbers of commercial activities, but each activity must be run through the detailed A-76 study process to ensure the government chooses the "right" winner and gets the best value for its money.

Both private business and the Air Force view outsourcing as a better way to do business, the caution is that outsourcing initiatives must be well planned and monitored.

The following chapter details the results of outsourcing aircraft maintenance and the potential cost savings associated with outsourcing, from both an overall O&P program and aircraft maintenance standpoint.

## Notes

<sup>1</sup> Vanderpool, Robert P. Unknown source.

<sup>2</sup> Commission on Roles and Missions of the Armed Forces. *"Directions for Defense."* Report of the Commission on Roles and Missions of the Armed Forces. May 95. 3-3, 3-6

<sup>3</sup> Office of the Under Secretary of Defense for Acquisition and Technology. Report of the Defense Science Board Task Force on Outsourcing and Privatization. Washington, D.C., August 1996. 29a

<sup>4</sup> Weible, Jack. "Cohen wants Reform of Defense Business Practices" Army Times, 27 October 1997 Activities Program, The Federal Benchmark for Competing Recurring Services" 8

<sup>5</sup> Speech to ICAF Privatization & Outsourcing Symposium, 24 April 1997

<sup>6</sup> Fogleman, General Ronald. "How to Save Money, Raise Efficiency" Air Force Times, 9 December 1996. 37

<sup>7</sup> The Outsourcing Institute "Top Ten Reasons to Outsource" available at <http://www.outsourcing.com//getstart/topten.html>

<sup>8</sup> Interview with Mr. Robert Hemp, 3 Feb 98

## Chapter 5

### Case Studies

*Opinions get you into arguments; facts lead you to conclusions.<sup>1</sup>*

—Charles M. Campbell

Albeit the amount of qualitative data on Air Force outsourcing of aircraft maintenance is incredibly small, lets lay out the facts so a conclusion may be drawn.

#### Manpower

<b>Air Force Aircraft Maintenance</b>									
<u>Base</u>	<u>Cmd</u>	<u>Date Award</u>	<u>Pre award Wkyrs</u>	<u>Post award Wkyrs</u>	<u>Manpower Savings</u>		<u>Saved</u>	<u>Dollars Decision</u>	
					<u>#</u>	<u>%</u>			
Laughlin	AETC	4/97	70	199	-129	0	6M	Contract	
Altus	AETC	6/96	1,444	742	702	49	20M	In-house	
Laughlin	AETC	4/89	979	584	395	40	16M	In-house	
Williams	ACC	12/89	1,057	568	489	45	16M	Contract	
Reese	AETC	11/89	970	588	382	39	15M	Contract	
Mather	AETC	2/90	<u>329</u>	<u>210</u>	<u>119</u>	<u>36</u>	<u>2M</u>	Contract	
<b>TOTALS</b>			<b>4,849</b>	<b>2,891</b>	<b>1,958</b>	<b>40</b>	<b>75M</b>		

Figure 4 CAMIS Data<sup>2</sup>

The slide above comes from the Air Force Center for Management and Quality Innovations' (AFCMQI) Commercial Activities Information System (CAMIS). CAMIS is a repository of information regarding all of the commercial activities outsourced, it does not monitor contractor progress. Figure 4 shows the good news information that may be extracted from CAMIS. We'll look at two examples from the CAMIS report.

### **Explaining the CAMIS Report**

Let's take a look at lines one and two. Line one means the aircraft maintenance work at Laughlin AFB was outsourced starting in April 1997. It didn't save manpower slots, but it will save \$6M over the period of the contract. The next line involves a much larger outsourcing effort. It means the aircraft maintenance work at Altus AFB was outsourcing starting in June 1996. It saved 702 manpower slots and will save over twenty million dollars. This 49 percent decrease in manpower translates into immediate savings for the Air Force. The manpower slots "freed" may be applied toward the Air Force's share of personnel reductions, thus saving force structure. For example, the 702 slots "freed" because of outsourcing at Altus could prevent other bases from losing those 702 slots out of their workforce. Instead of several bases having their force structure reduced, one base is outsourced and the manpower savings "spent" to help lessen the reductions at the remaining bases. Thus the Air Force reduces end strength as directed by law, yet is able to maintain a high level of support to the warfighter.

From the data one can see that a large outsourcing efforts have usually produce more savings than smaller efforts. It's also clear that the number and size of outsourcing efforts is small, only 4,849 slots were competed, but the Air Force saved 1,958 slots and

\$75M. These results are extremely positive and are part of the reason for the increased emphasis placed on outsourcing—potential savings by expanding O&P are great.

Figure 5, below, provides a concise graphical view of the timeline for a large scale A-76 study. It shows the announcement through development of the PWS, the cost comparison and eventually to the contract start. This A-76 study took 16 months to complete—a deliberate process.

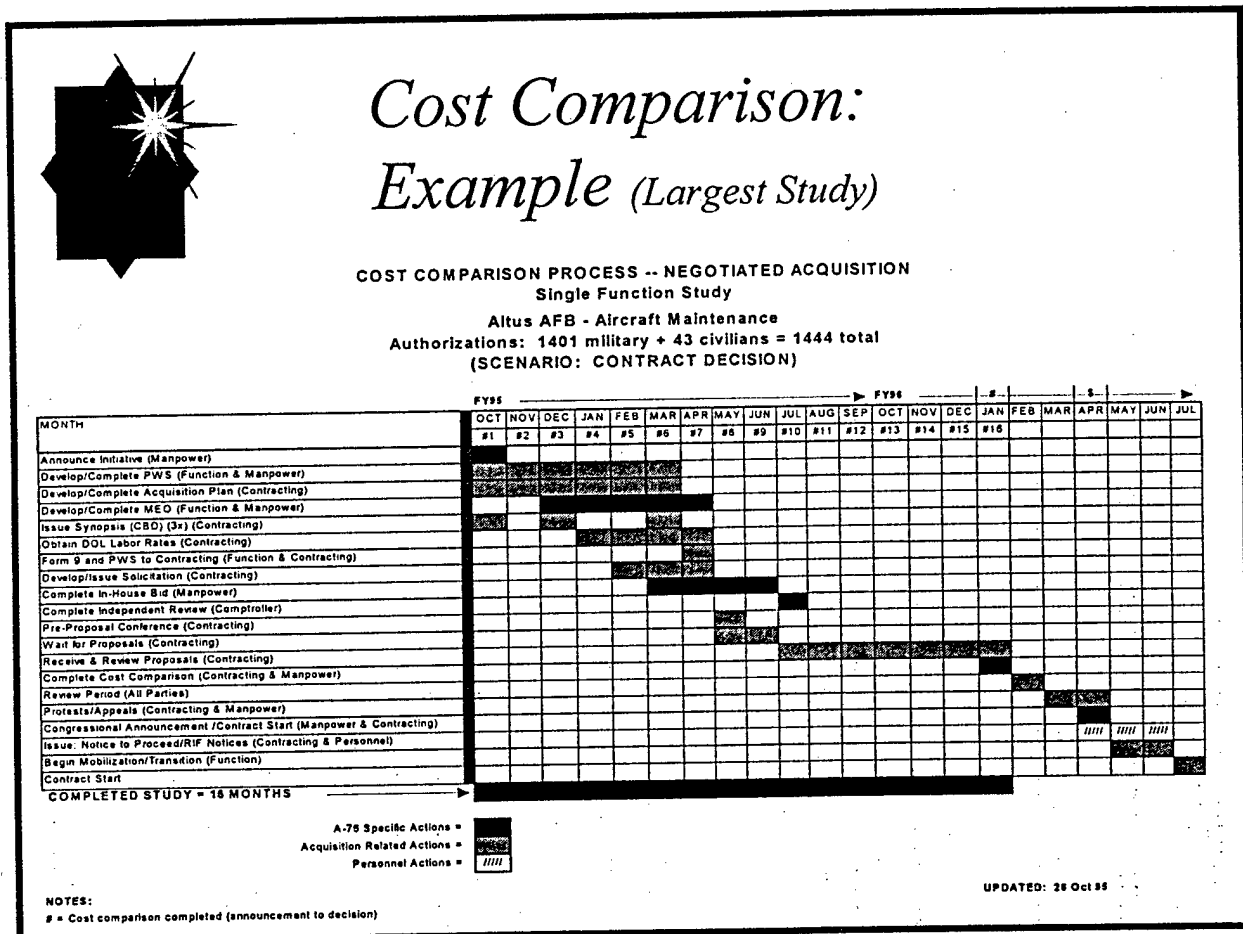


Figure 5 Altus AFB Cost Comparison<sup>3</sup>

I've mentioned some of the manpower and dollar savings garnered by outsourcing, I've not mentioned performance. The next logical question is does outsourcing produce results? Next, lets look at the performance of aircraft maintenance outsourcing efforts.

## Performance

The CAMIS data only provides manpower and dollar savings, it doesn't address the contractor's actual performance. Each Major Command who is responsible for managing a particular contract maintains the contractor performance data. In the case of aircraft maintenance a common metric is aircraft mission capable rates. Although only one metric it demonstrates that the aircraft being maintained by the outsourcing winner are being utilized and meeting Major Command goals. That is, if the maintenance was of poor quality the aircraft could not meet their mission capable (MC) goals. Representative data from HQ AETC, below, shows the MC rate for bases maintaining the T-37 aircraft:

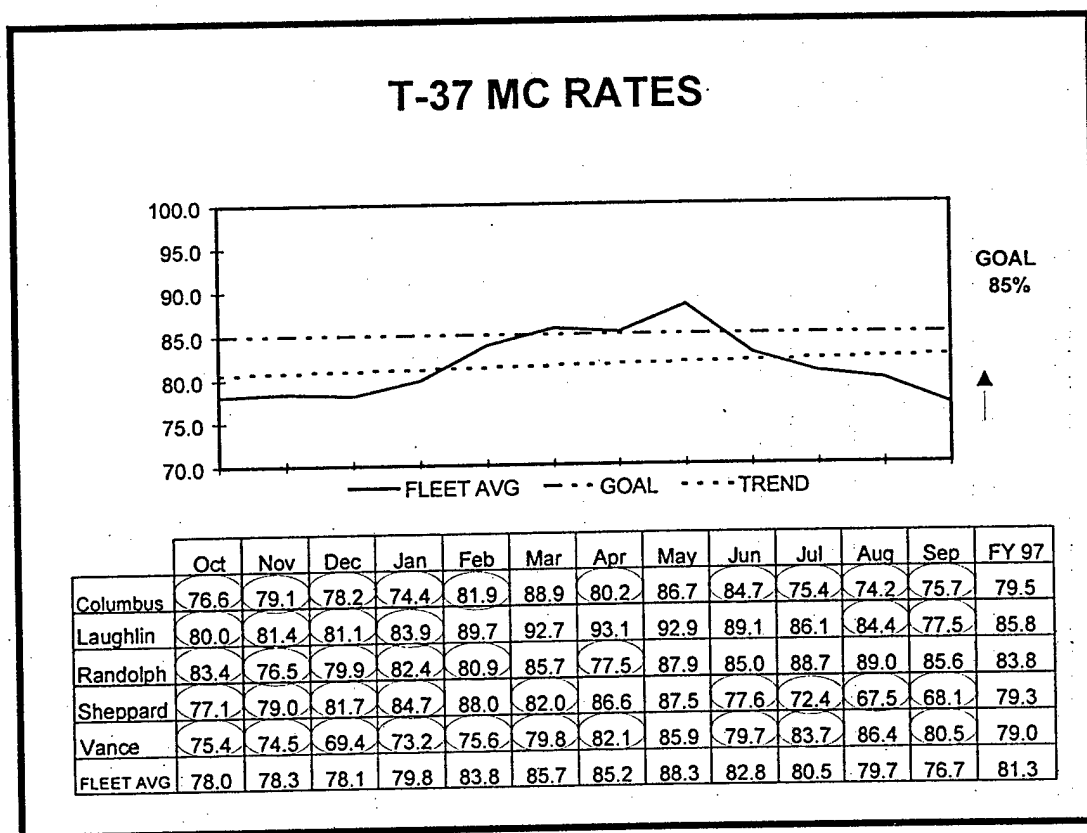


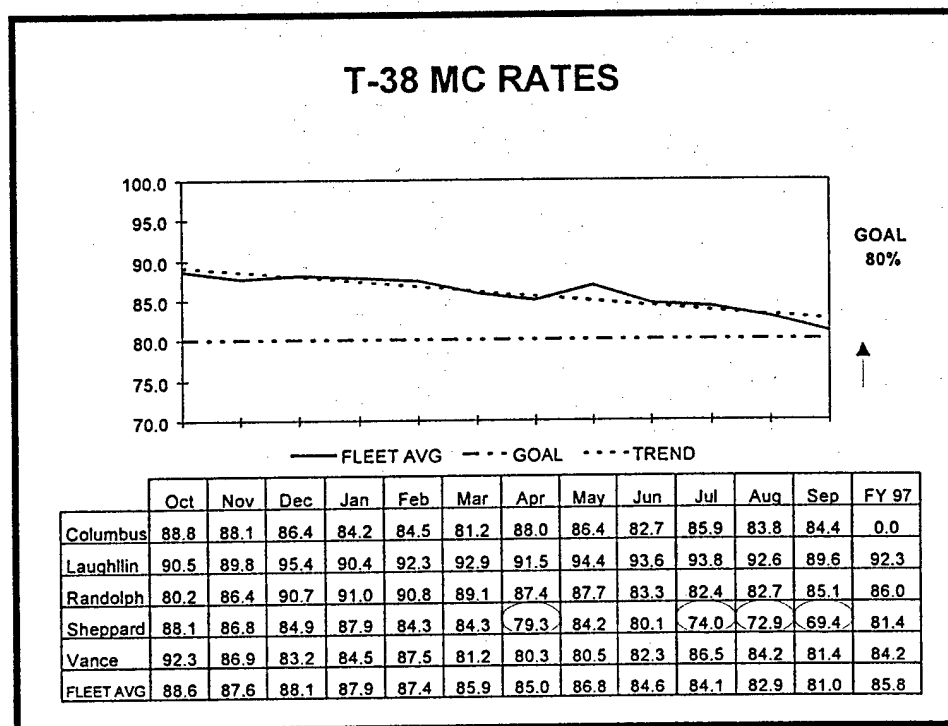
Figure 6 T-37 MC Rates<sup>4</sup>

## Explaining the T-37 Mission Capable Chart

All the bases have aircraft maintenance outsourced to civilian maintainers, Vance AFB since the late 1960s. The MC rate goal established by AETC is 85 percent, and the overall trend is between 78 and 85.7 percent. The MC rates that failed to meet the goal are circled...quite a few. The obvious question is why did these bases fail to meet the MC rate goal?

From the report for the month of September the reasons for failing to meet the MC goal are: Columbus and Laughlin did not meet the command goal due to maintenance and supply downtime. Sheppard did not make the goal due to supply downtime. Vance did not make the goal due to maintenance downtime. Sheppard: states "the lack of spare engines and engine parts are the driving factors for this rate." Also the 1 Jul 97 start of the Engine Regionalization Repair Center (ERRC) has driven this rate due to the unavailability of spare engines from the ERRC.<sup>5</sup> Job performance of the maintenance unit was not the reason for failing to meet the goal—the outsourced workers are performing their job right, the quality is comparable to pre-outsourcing work.

Another MC rate chart is shown on the following page. It shows the same bases and how well they've met their T-38 MC rates. The overall T-38 MC rate is higher than the T-37 example, very few times was the MC rate not achieved as indicated by the circled rates. The reason Sheppard AFB failed to meet the goal was exactly the same as why they could not meet the T-37 MC rate. Again, job performance and quality are high.



**Figure 7 T-38 Mission Capable Rates<sup>6</sup>**

From these examples, it's plain to see that outsourcing of aircraft maintenance does produce the quality work demanded by the warfighter. This supports the user's perspective presented in Chapter 4.

We've discussed manpower and dollar savings and job performance of outsourced aircraft maintenance, it seems outsourcing receives passing grades in all three categories. Now, lets take a big picture view of the cost savings to determine if they are real or merely bookkeeping magic.

### Cost Savings

Between 1978 and 1994, the Department of Defense conducted about 2,000 A-76 cost comparisons—and has saved about 30 percent or about \$1.5 billion of savings per

year. Overall, the DOD believes an average A-76 study saves 30+ percent over the previous method of accomplishing the task.<sup>7</sup>

Further, the DSB reports the Air Force has held 733 A-76 competitions from 1978-1994 with total annual savings of \$560M (base year FY96). Outside vendors won 52 percent of the A-76 competitions but accounted for 78 percent of the savings.<sup>8</sup> In other words, the Air Force teams won almost 50 percent of the competitions but accounted for only 32% of the savings.

The government Accounting Office (GAO) investigated the DOD's claims of 30 percent savings per A-76 study and they concluded that the savings projections are based on unverified projections rather than on actual A-76 savings. Further, where audited, the estimated savings did not achieve the projections, even through the costs of the competitions were not taken into consideration.<sup>9</sup> The GAO also concluded that some of the savings occurred because the level of service was reduced. This is, the outsourced work involved fewer tasks than were previously being accomplished by the government (comparing apples and oranges). The "removed" tasks could be added back into the contract at a later date, but at an increased cost.

The bottom line is that GAO believes the 30 percent savings per A-76 study are too optimistic and unachievable. Savings are dependent on a competitive commercial market, downsizing, and the ability to clearly define the tasks to be done and measure performance—we must write a complete PWS and QASP as mentioned in Chapter 3. Both the DOD and GAO are dealing with projections, not solid numbers. The best way to determine the actual savings generated by outsourcing is to continue to gather data.

The next chapter presents my conclusions on O&P and a possible future for O&P in the Air Force.

### Notes

<sup>1</sup> Campbell, Charles M. Unknown source.

<sup>2</sup> Air Force Center for Quality Management Initiatives. Commercial Activities Management Information System Database. November 1997.

<sup>3</sup> Andrew, Annie. "Air Force Commercial Activities Program...The Federal Benchmark for Competing Recurring Services" HQ USAF/XPMR, April 1997.

<sup>4</sup> HQ AETC/LGMMA. "Logistics Indicators" HQ AETC/LGMMA, August and September 1997. Available at

<http://www-logistics.aetc.af.mil/maint/2r0/limited/index.htm>(username and password required).

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Northington, Brigadier General Larry. "Outsourcing and Privatization" briefing HQ USAF/XPM, October 1997.

<sup>8</sup> Office of the Under Secretary of Defense for Acquisition and Technology. Report of the Defense Science Board Task Force on Outsourcing and Privatization. Washington, D.C., August 1996.

<sup>9</sup> Warren, David R., Director, Defense Management Issues, National Security and International Affairs Division. Testimony before the Subcommittee on Readiness, Committee on National Security, House of Representatives. *Defense Outsourcing Challenges Facing DOD as it attempts to Save Billions in Infrastructure Costs*. 12 March 1997. 18, 20

## Chapter 6

### Conclusions

*Together, our efforts to make outsourcing and privatization a successful venture across the Air Force will better enable us to focus our combat functions, take care of our people and keep our modernization program on track as we prepare for the challenges of the future.<sup>1</sup>*

—General Fogleman  
Former Air Force Chief of Staff

In the post-Cold War era, the Department of Defense must meet the challenges of readiness, quality of life, and modernization. First, the readiness of our fighting forces must be the number one priority. The Air Force must be prepared and capable of accomplishing its missions. Next, quality of life is vital because readiness depends on the quality of life of the forces. Third, the modernization of our forces is imperative for future readiness and viability. Investments must increase to acquire the weapons that will ensure our continued technological superiority. Outsourcing and Privatization plays a critical role in meeting these challenges.

This paper has set forth the key terms of O&P and the laws and various policies governing how O&P may be used. Next, the A-76 cost comparison process was discussed in detail because of its importance to outsourcing. Outsourcing candidates will follow the A-76 study process as directed by OMB. Then to better understand the direction of O&P, the perspectives from studies, senior Air Force leaders, business, and users was presented. These perspectives clearly showed that O&P *will* be a major part of

how the Air Force conducts its support mission. Finally, quantitative data on the savings of manpower and money and the corresponding performance achieved was covered. This showed that O&P can free up the resources required for modernization—the manpower and dollar savings are real and the work done meets requirements.

The dollar savings may or may not be overestimated, only more data will provide the actual savings, but there is no debate that O&P saves manpower and money while the ability to support the warfighter remains undiminished. Bottomline is that the outsourcing provider maintains the quality demanded by the Air Force warfighters at less cost. However, the Air Force must closely monitor the outsourcing provider by choosing the right metrics and diligently analyzing them for the cause of any problems. A successful outsourcing arrangement depends on clearly defined needs as spelled out in the PWS, and the ability to define acceptable quality in measurable terms as written in the QASP and the contract.

Former Secretary of the Air Force, Sheila Widnall, also sees O&P as an important part of the Air Force's future. "I consider outsourcing and privatization – along with other elements of the Air Force's on-going management revolution – to be a "pass-fail" item if we are to remain the force that this nation needs in the decades to come. ...it is up to all of us to vigorously pursue further opportunities."<sup>2</sup> Basically, she is saying that if O&P initiatives are done wrong the Air Force will *fail* to modernize and thus become a second or third rate Air Force incapable of performing its missions. The Air Force must create savings to pay for force modernization while not affecting force structure or support to the warfighter—O&P.

Increased use of O&P will require a cultural change in the Air Force. In the area of aircraft maintenance outsourcing is a dramatic change from the organic support concept used since WWII. From the policies and perspectives presented in Chapters 2 and 4 respectively, it appears the leadership is pushing O&P from the top down. They recognize the benefits offered by O&P and they have given their full support to help overcome the resistance at the worker level. Education is critical, as workers see that "doing more with less" is a back breaker they will accept O&P as a smart idea. It will take some of the workload burden off their backs without sacrificing workers (helps absorb manpower cuts) or warfighting capability.

The continued reductions in manpower and funding mandated by Congress and recommended by the Quadrennial Defense Review (QDR) has forced our senior leaders to choose between reductions in force structure (reducing readiness and foregoing modernization) or finding innovative ways to improve efficiency and effectiveness. O&P offers as solution, it has the potential to save manpower and money as demonstrated by the data presented. The Air Force must aggressively seize onto this opportunity to reduce infrastructure while maintaining its warfighting ability. It must build upon the "baby steps" taken so far in O&P to reap the benefits possible.

### **The Future**

The Air Force's Global Engagement document seals the fate of future O&P, "Our warfighting activities will be designed for effectiveness and our support will be designed for efficiency.... *support activities not deployed for combat will be performed by a robust civilian and competitive private sector.* The Air Force is committed to the organizational and culture change to make this vision a reality."<sup>3</sup>

The Air Force needs funding...we can't support what we bought in the past, can't maximize the use of what we own in the present, and can't buy what we need for the future. O&P produces savings that reduces the support bill (the past and present) and frees up funding for modernization (the future).

In addition to ongoing efforts, the Air Force has begun the JUMP START program. It is the next large round of outsourcing for the Air Force. It targets the non-military essential commercial activities identified by Air Staff and MAJCOMs. It provides a means to meet QDR manpower requirements for the Air Force of the 21<sup>st</sup> century, while generating savings for modernization. In other words, JUMP START is a systematic approach to identify O&P candidates to help meet recommendations that came out of the QDR. As mentioned earlier, the senior leaders' choices are limited, JUMP START will provide the savings needed to avoid cutting further into the Air Force muscle (core). The JUMP START program details are being finalized, currently it projects that over twenty-six thousand positions will be looked at for outsourcing—potential savings exceed 1.5 billion dollars

O&P is here! It will continue to grow and will continue to save money and manpower to enhance the Air Force's ability to support the warfighter through services such as aircraft maintenance and equipment in the form of force modernization.

#### Notes

<sup>1</sup> Fogleman, General Ronald. "How to Save Money, Raise Efficiency" Air Force Times, 9 December 1996. 37

<sup>2</sup> Former Secretary of the Air Force, Ms. Sheila Widnall, in a 20 November 1996 speech.

<sup>3</sup> Northington, Brigadier General Larry. "Outsourcing and Privatization" briefing HQ USAF/XPM, October 1997.

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