



PROJECT AIR FORCE

***Federal Agencies Can Adapt Best
Commercial Practice to Improve Their
Acquisition of Services***

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RAND Project AIR FORCE

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Since 1992, RAND Has Gained Insights from a Broad Range of Sourcing Policy Studies

Topics

- **Aligning sourcing policy to strategic goals**
- **Planning for and executing**
 - Performance-based services acquisition
 - Public-private competition
 - Quality-based purchasing, supplier management, strategic sourcing
- **Choosing partners; designing and sustaining partnerships**
- **Bundling/packaging**
- **Aligning sourcing policy to small business priorities**
- **Workforce development**
- **Government agency adaptation, implementation of best practice**

Sponsors (in approximate order of level of support)

- **Air Force**
- **Army**
- **OSD**
- **Navy**
- **Others (Coast Guard, DLA, Marine Corps, NGA, NSA, etc.)**

Activities

- **Logistics**
- **Facility management**
- **Business, personal services**
- **Support of deployed forces**
- **Information technology**

We Highlight the Following Topics to Promote a Useful Discussion Today

- **Adapting best commercial practice (BCP)**
- **What best commercial practice is**
- **Metrics, benchmarking, and governance**
- **Education, training, and personnel management**
- **FAR Part 12 and real commercial practice**

RAND Seeks to Improve Federal Sourcing Policy by Adapting Best Commercial Practice

Why focus on best *commercial* practice?

- Innovation tends to occur in the private sector first because (1) it is large and (2) uses higher-powered incentives
- The best service providers seek buyers who use best commercial practices

Why *adapt* successful practices?

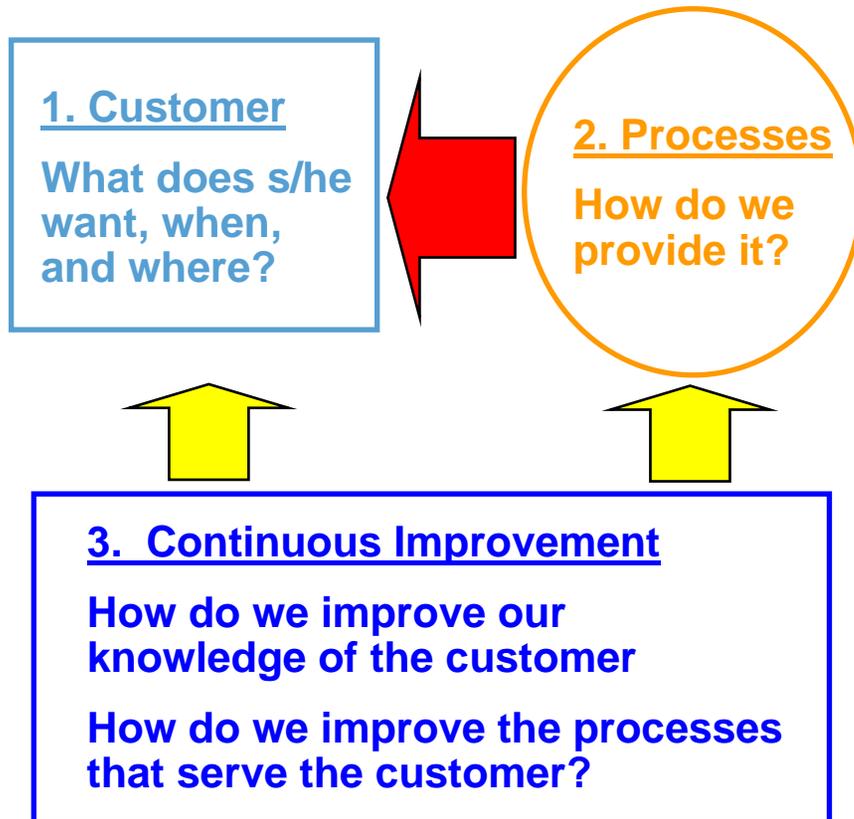
- Differences in relevance of *
 - integrity
 - equity
 - efficiency
- Differences in capabilities:
 - incentive systems
 - information systems
 - demographics of work force
 - flexibility to redeploy displaced resources

* *Kelman, Procurement and Public Management, 1990*

Road Map

- Adapting best commercial practice (BCP)
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BCP Aligns Customers to Processes and Continuously Improves Resulting System



1A. Who is the customer?

1B. What does the customer want?

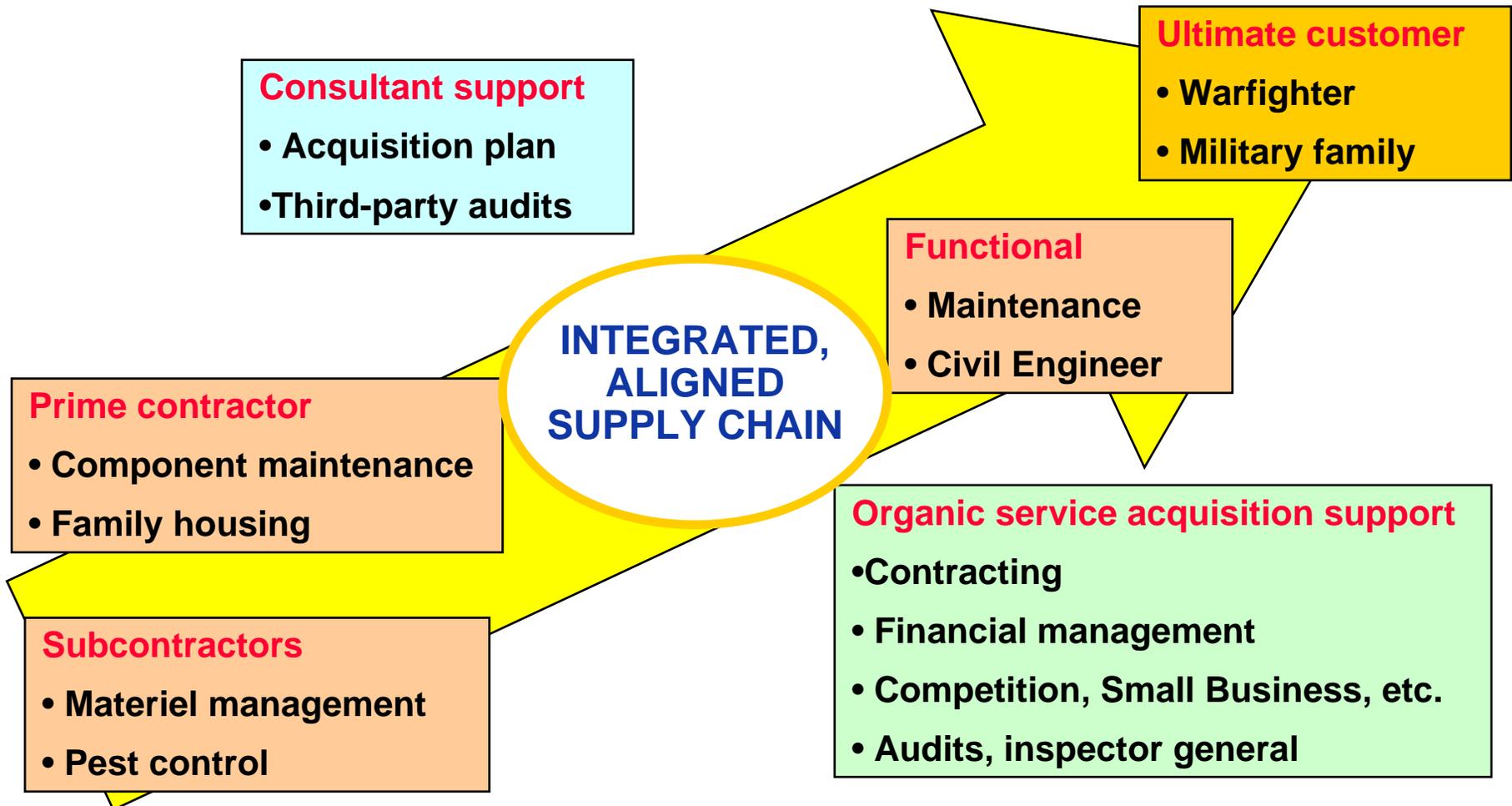
2A. What processes do we use to service the customer?

2B. How are those processes linked and coordinated?

3A. What can we do to please the customer more?

3B. How can we make it easier to please the customer?

BCP Aligns Final Customer to All Relevant Internal, External Supporting Processes



Successful Commercial Use Identifies Many “Best” Sourcing Practices Today (1 of 2)

- **Identify core competencies; review all other activities for potential outsourcing**
- **Elevate Chief Procurement Officer (CPO); treat sourcing more strategically**
- **Use metrics based on organization-wide goals to measure sourcing success**
- **Use "total ownership cost" to measure effects on cost**
- **Use multifunctional teams to develop sourcing policy, decisions**
- **Use strategic criteria to segment how products are acquired**

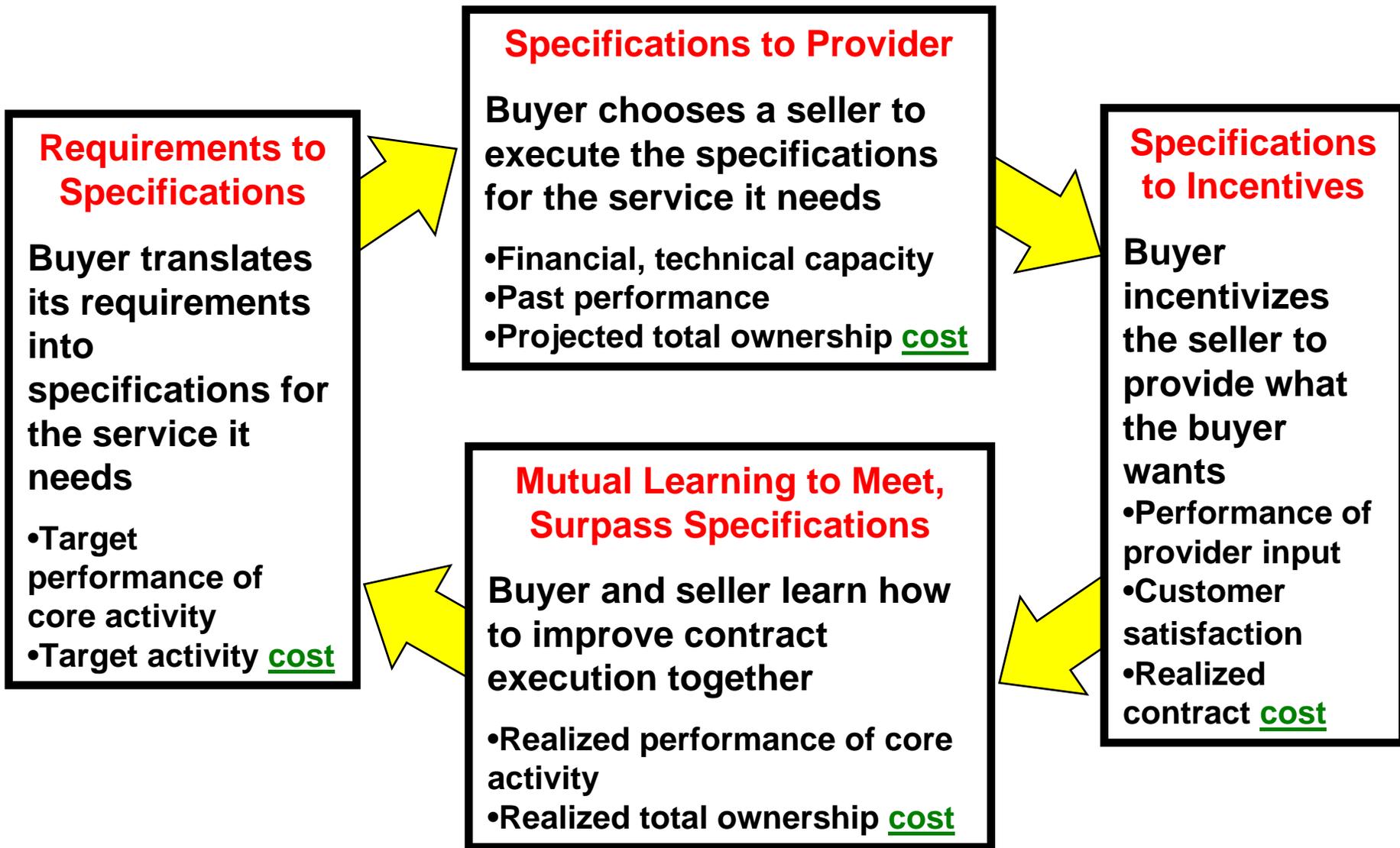
Successful Commercial Use Identifies Many “Best” Sourcing Practices Today (2 of 2)

- **Substitute purchase cards, automation for simple sourcing decisions**
- **Make major sourcing decisions on the basis of strategy, not cost or formal competition**
- **Reduce the number of providers; manage those who remain strategically**
- **Substitute benchmarking and TQM-based standards for competition where appropriate**
- **Write performance-based, not process-based, statements of work, objectives**
- **Upgrade the skills of sourcing-related personnel**

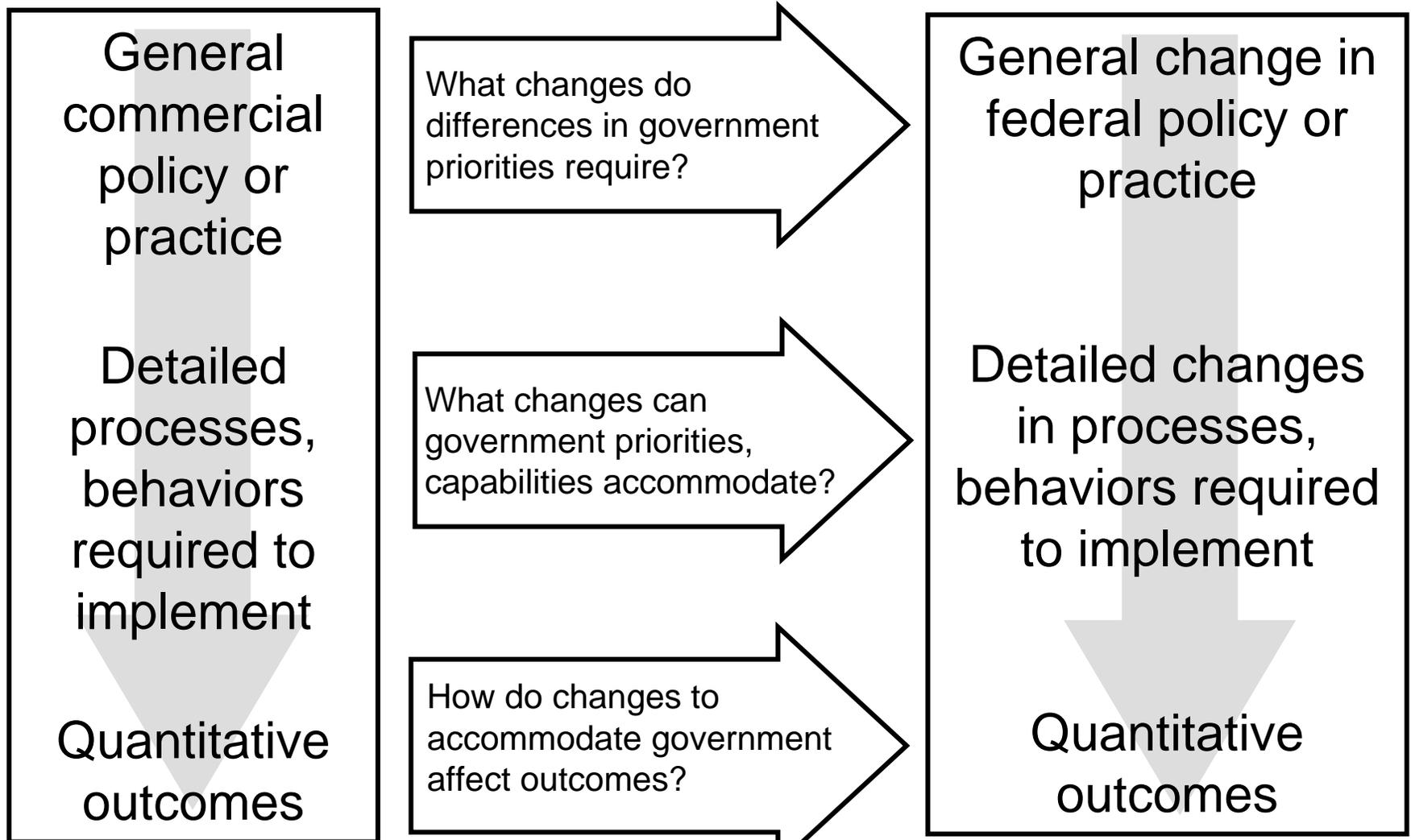
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Metrics Provide Concrete Framework for Buyer, Sellers to Improve Mutual Performance



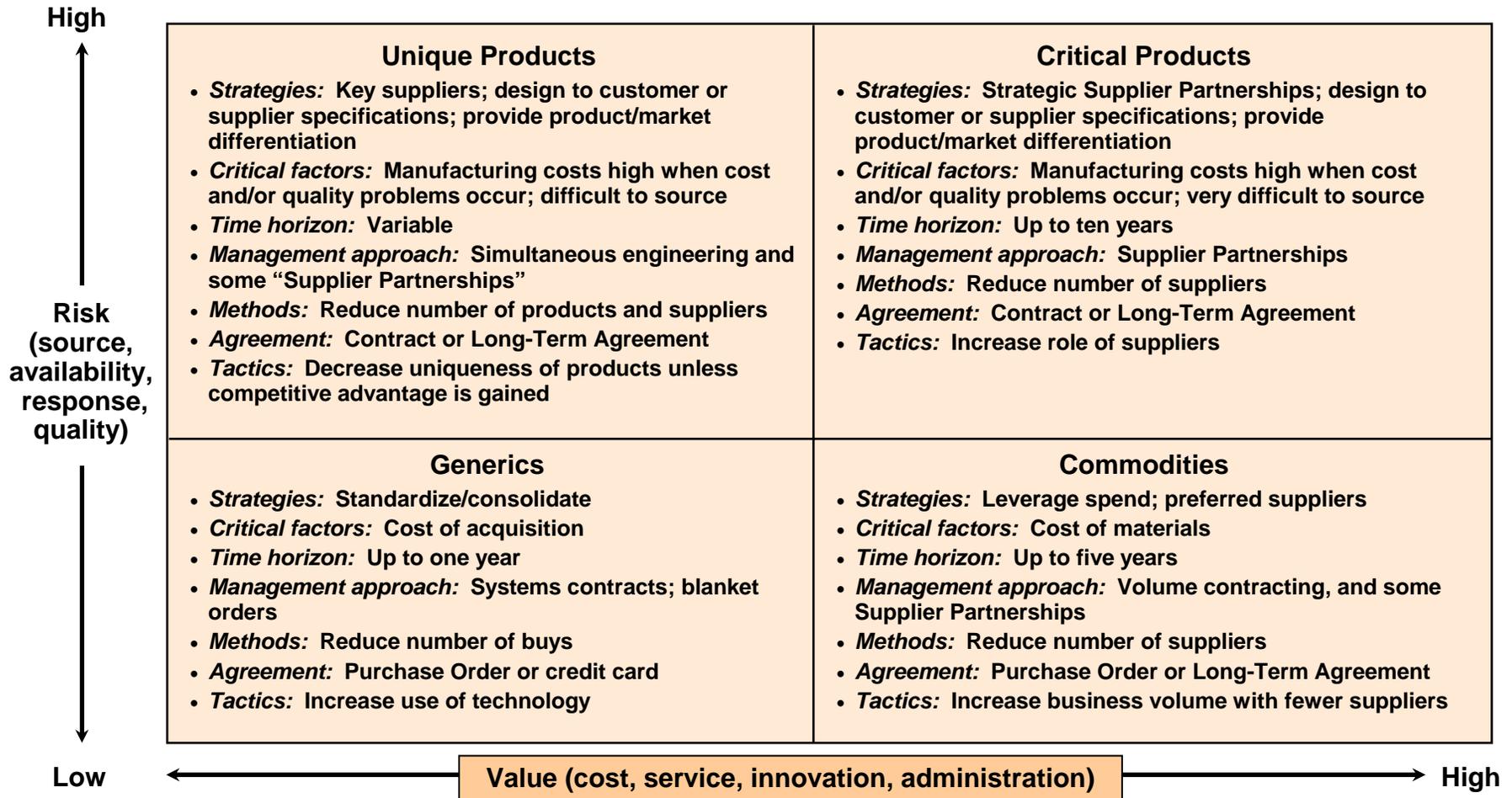
Metrics Also Provide a Concrete Framework for Effective Benchmarking



Where Can Benchmarking Replace Competition?

- **Benchmarking supports many sourcing tasks today**
 - **Whether to acquire services from outside**
 - **How to improve acquisition of services**
 - **What price to pay for services**
 - **Whether to award fees or terms**
- **Formal competition has benefits, costs relative to benchmarking**
 - **Makes terms of sourcing decisions more explicit, transparent**
 - **Creates more powerful incentives to use appropriate estimates of relative performance, cost**
 - **Imposes administrative burdens on budgets, manpower, and schedules**
 - **Can compromise long term relationships that reward performance and/or promote mutual learning**

Governance Structure Used to Align External Source Depends on Nature of Product Sought

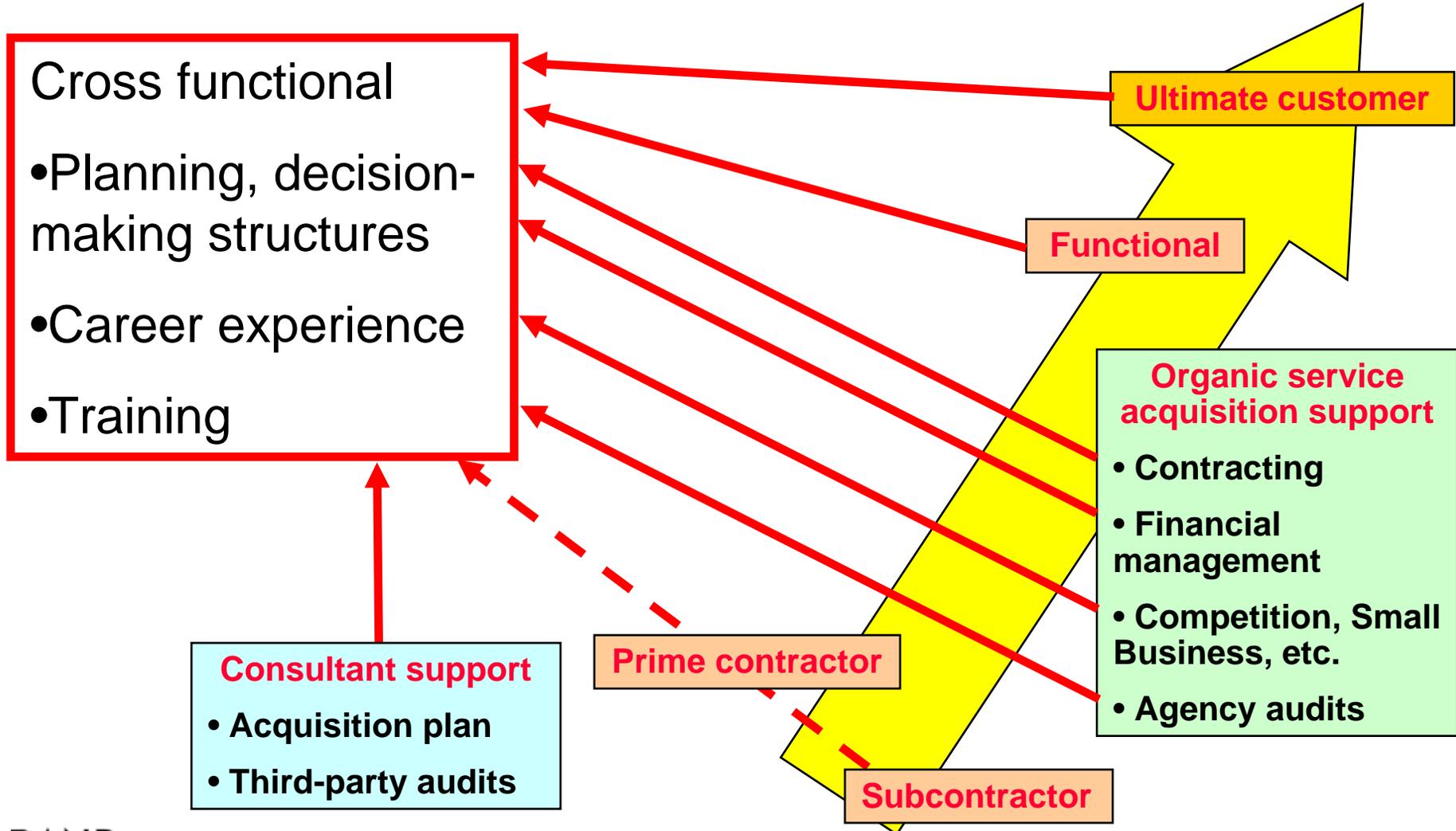


SOURCE: Adapted from John Deere, "Sourcing Strategies," Supply Management Strategies, 1997.

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Training, Personnel Management Create Skills Required to Exercise Discretion Effectively



Reskilling Can Raise Skill Level and Lower Total Cost of Acquisition Labor Force

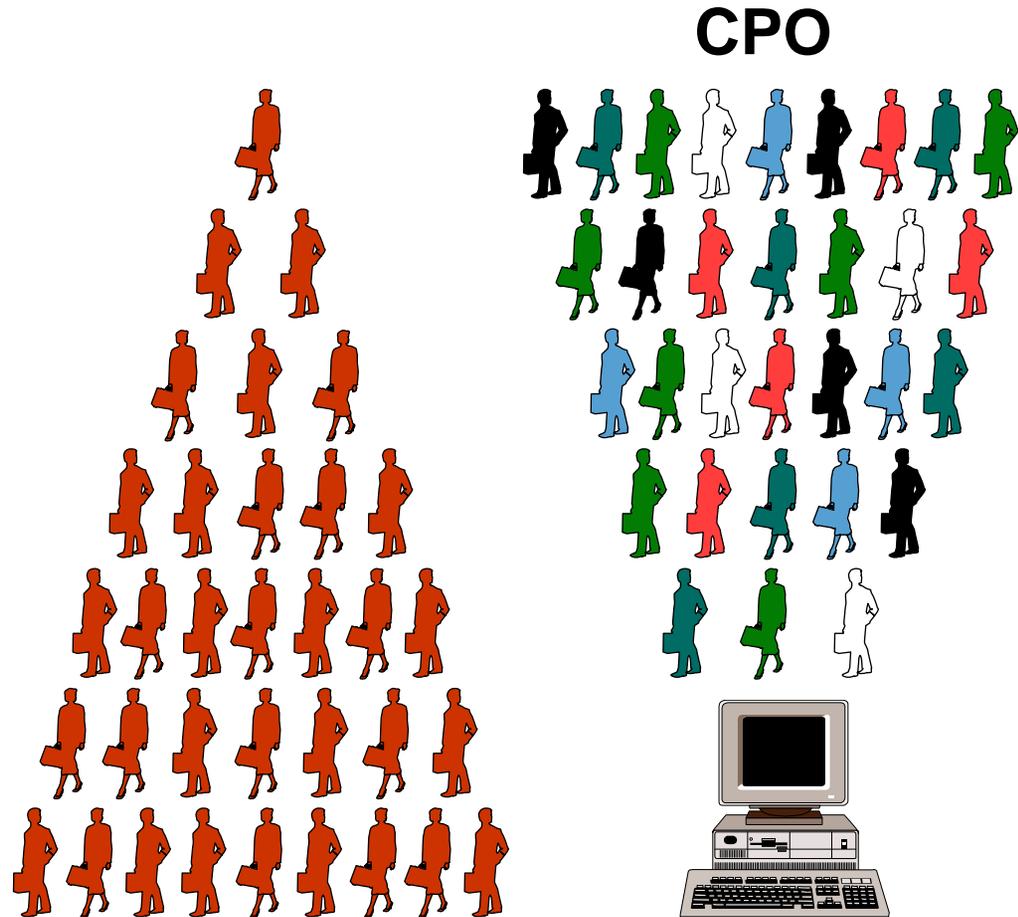
Best commercial practices:

- Use automation to eliminate low-skilled transaction-oriented contract labor tasks
- Train remaining workforce in problem-solving skills focused on core mission concerns
- Rotate acquisition, operational personnel through each other's activities
- Outcome: More skilled, capable workforce at lower total cost

Adapted from Ron Casbon, Bethlehem Steel, "Implementing New and Changing Supplier Relationships Through Strategic Sourcing to Achieve Win/Win Results," presented at 2nd Annual Strategic Sourcing Management Conference, Institute for International Research, San Diego, CA, February 22, 1999.

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From tactical buying ... to best commercial practice



Just-in-Time Training Can Quickly Prepare Multi-Functional Team for an Acquisition

Monday	Tuesday	Wednesday	Thursday	Friday
Introduction to the training approach and case	Market research	Defining requirements 2: Government regulations	PWS/QA plan 2: Managing problems	Performance management 2: Significant surprises
Basic training on team process	Defining requirements 1: Customer needs	PWS/QA plan 1: Basic design	Performance management 1: Day-to-day management	Wrap-up: Summary Assessment Discussion of local problems

Source: Sec. 912(c) Services Acquisition Training Industry Day, Ft. Belvoir, VA, May 1999

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How Does FAR Part 12 Align Sourcing with a Federal Agency's Customer Priorities?

- “Implements the Federal Government’s preference for the acquisition of commercial items contained in [FASA] by **establishing acquisition policies more closely resembling those of the commercial marketplace.**” [FAR 12.001]
- 4-quad chart (#10) illustrates how real commercial governance of a service acquisition varies systematically by product type.
- Proposal: Judge any change in FAR Part 12 in terms of how it ensures that the government
 - Implements FAR Part 12 in ways that attract the best commercial providers to offer services to the government.
 - Asks whether such practice will preserve integrity and equity in federal buying AND (1) improve service quality, (2) reduce service cost, or (3) reduce administrative burden on the government.

Note: FAR Part 12 does not currently explain why simply emulating commercial practice advances government buyer priorities

Example: Is the Definition of “Commercial Services” Aligned with Federal Customer?

FAR Part 2.101 defines “commercial services” as:

- **Services to support any item (1) customarily used for nongovernmental purposes, (2) evolved from such an item AND that will be available in the commercial marketplace to satisfy delivery to the government, OR (3) modified from such items in specified ways [Para. (5)]. OR**
- **Services sold competitively in substantial quantities in the commercial marketplace based on established catalog or market prices AND offered to the government under standard commercial terms and conditions [Para. (6)].**

Alignment with federal customer goals

- **Government can get just as good a deal as commercial buyers if it has access to the same services under the same terms and conditions (if government purchasing personnel know how).**
- **Potential problems arise for**
 - **Services for items not yet sold in quantity to the public**
 - **Services modified for government-unique requirements**
 - **Degree of equivalence of government, commercial arrangements**

Guidance in FAR Part 12 Must Be Conformed to the Skills of Personnel Who Apply It

- **Specific training can address persistent confusion about specific questions. E.g.,**
 - How can Part 12 be coordinated with Parts 13, 14, 15?
 - What cost data can be required under FAR Part 12, in what format, under what conditions?
- **Effective application of “customary commercial practice” requires**
 - Better specific knowledge of such practice; it changes over time.
 - Experience and training to promote problem-solving that aligns applications of Part 12 with federal customer goals
- **Alignment guideline proposed above can be applied in two ways:**
 - Justify specific applications of FAR Part 12; assumes sourcing personnel with appropriate skills
 - Constrain application of Part 12 more precisely where such skills do not yet exist

When Should the Federal Government Treat a Product It Buys as “Commercial”?

- **Use the central best commercial practice for acquisition as the organizing principle:**
 - **Use a treatment that aligns characteristics of any product—item or service—acquired with the priorities of the ultimate customer served by the end-to-end process that uses this product as an input**
 - **Version in the new management paradigm: Align any supply chain to the priorities of its final customer**
 - **Version in Economics 101: The value a buyer places on any input ultimately derives from the final demand this input supports.**
- **Treat a product as “commercial” if the government can adapt “customary commercial or market practice” to align the product to the priorities of the ultimate federal customer. What is required to do this?**
 - **Federal customers have expectations for integrity, equity, efficiency in any acquisition of a product. Align treatment to these expectations.**
 - **Commercial custom to achieve proper alignment is heavily dependent on circumstances. So commercial custom for the product in question must be directly observable to adapt and align custom to federal expectations.**
 - **Federal acquisition workforce must have formal guidance, experience, skills, tools, and time to achieve such adaptation, alignment.**

Key Points to Take Away

Topic	Take away
Adapting best commercial practice (BCP)	<ul style="list-style-type: none"> •Best commercial practice is a product of on-going experimentation in the private sector that dominates the economy •Adaptation must resolve inherent differences in commercial and government priorities and capabilities
What best commercial practice does	<ul style="list-style-type: none"> •Aligns external sources with agency goals •Increases skills, level, discretion of workforce to promote effective alignment •Constantly adjusts practice to reflect on-going innovation in private sector
Metrics and benchmarking	<ul style="list-style-type: none"> •Metrics serve several qualitatively different roles in services acquisition •Benchmarking, market research sustain an agency's on-going visibility of its external environment and opportunities for internal process improvement
Partnerships and competition	<ul style="list-style-type: none"> •Differing degrees of partnership are appropriate for buying different services •Partnerships constrain competition; trade-offs are required to let them work
Education, training, and personnel management	<ul style="list-style-type: none"> •Best commercial practice tends to increase discretion throughout an agency to align external sources to high-level goals •Sourcing personnel need higher-level skills, data, analytic tools, time to execute increased discretion in an agency's best interests
FAR Part 12 and real commercial practice	<ul style="list-style-type: none"> •Part 12 does not currently promote effective application of best commercial practices •Discretion allowed in Part 12 should be tailored to the level of skills in the sourcing workforce that implements it.



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