

# 17

## CONTRACTING FOR LOGISTICS

*Logistics in Time Saves a Return to the Prime.*

### **17.1 OBJECTIVES**

Contracting for support is the principal means to implement the government's logistics strategy. Contracting is done within the framework of contract laws and regulations and must be in consonance with the acquisition strategy approved by the milestone decision authority (see 17.2.3.1). Contracting is used to acquire many or all of the following logistics deliverables from commercial sources during system acquisition:

- logistics documentation, such as analyses, plans, designs, and reports;
- support materials, such as spare and repair parts, support equipment and software; and
- logistics services such as training, component repair, and "turn-key" maintenance and supply support of selected equipment (e.g., training simulators) or of the system.

Some of these deliverables may be procured under a separate logistics contract; others may be part of an overall program contract. In either case, the government's objectives are to satisfy its logistics support needs at a fair price within legal and regulatory boundaries. The contract will provide specific responsibilities for both parties. The general government contracting activities are listed below in chronological order:

- Acquisition Strategy
- Acquisition Planning
- Procurement Package
- Solicitation Process
- Proposal Evaluation
- Discussions/Negotiation and Contract Award
- Contract Monitoring

## **17.2 BACKGROUND**

### **17.2.1 Acquisition Policy, Law, and Regulations**

U.S. Government policy calls for heavy reliance on private commercial sources for supplies and services (Office of Management and Budget (OMB) Circular No. A-76, "Performance of Commercial Activities"). The Federal Acquisition Regulation (FAR) and other procurement directives set forth rules and procedures for implementing this policy. These documents reflect both the basic procurement law, the Armed Services Procurement Act, and revisions enacted during the annual authorization and appropriation process. The DoD implements and expands on the FAR in the Defense Federal Acquisition Regulation Supplement (DFARS) and Service supplements.

### **17.2.2 Contracting Authority, Responsibility, and Participation**

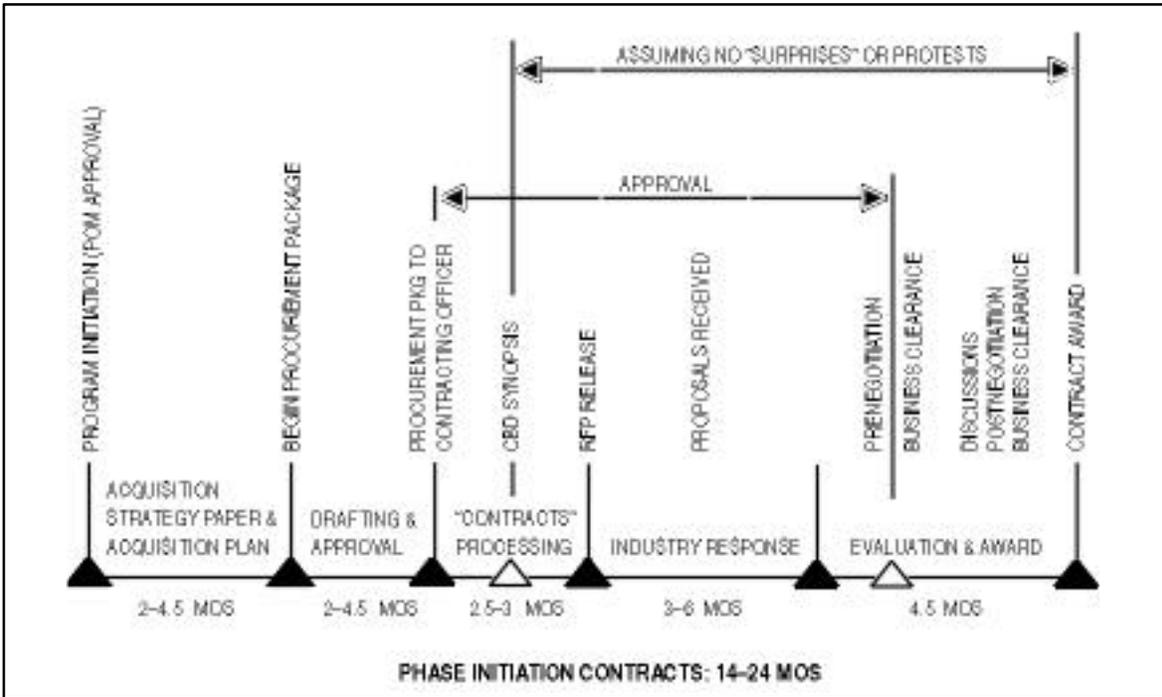
Authority and responsibility to contract for authorized supplies and services are vested in the agency head and delegated to contracting officers. In turn, the contracting officer is responsible for ensuring that all requirements of the law, executive orders, regulations, and procedures have been met prior to exercising this authority. Although contracting officers are allowed wide latitude in exercising business judgment, they must ensure that contractors receive impartial and equitable treatment; and they must elicit and consider the advice of specialists in program management, engineering, logistics, and other fields as appropriate (FAR 1.602-2).

Specialists, such as Logistics Managers (LMs), must be involved in major contract events such as source selection. Major contracting activities such as developing the acquisition strategy for logistics are primarily the responsibility of the LM. The LM has some involvement in the entire contracting process from preparation of the procurement package to monitoring contractor performance.

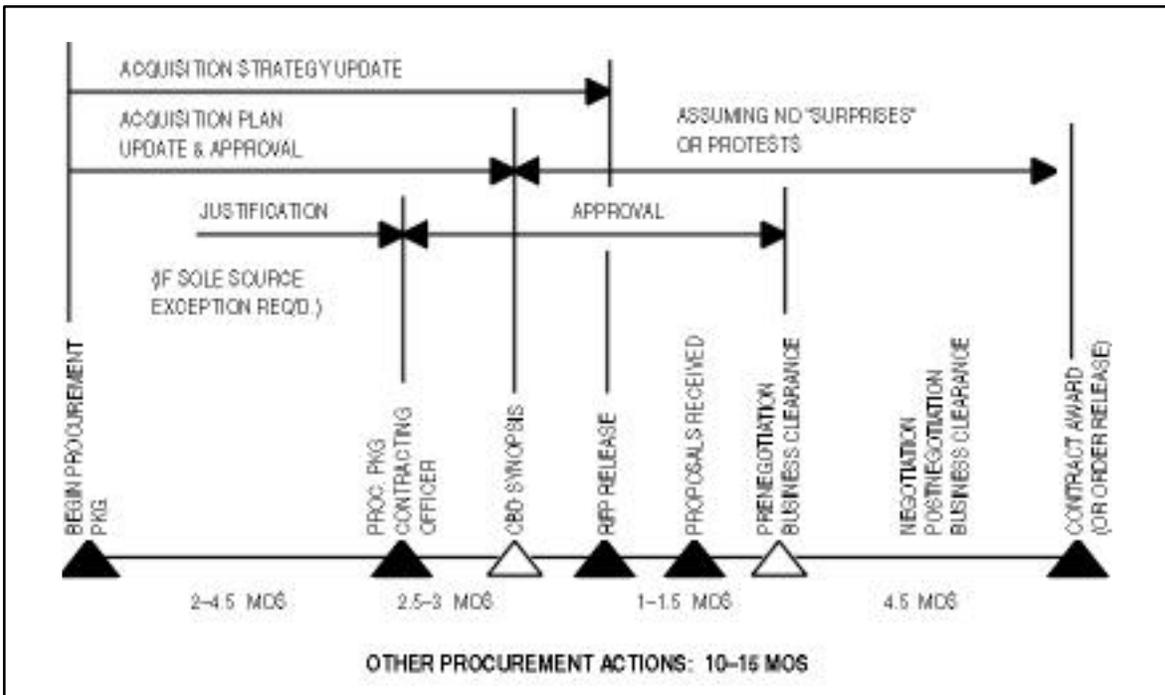
### **17.2.3 The Contract Process**

The primary contracting activities for the LM involvement include: developing the contracting strategy, planning the acquisition, recommending contract method and type, preparing the procurement package, evaluating proposals, and monitoring contract performance. These are discussed in FAR 7, 34, 35, and 37. Solicitation, negotiation, and award processes are the responsibility of the contracting officer, with assistance as required from specialists such as the LM (Figure 17-2). The LM should become familiar with his responsibilities for these contract events as they relate to contracting for support. Figures 17-1 and 17-2 display a generic chronology of contract events. These time frames are representative contract lead times under the Competition in Contracting Act of 1984.

**17.2.3.1 Acquisition Strategy.** The LM's acquisition strategy should permit prepriced competitive contracts. Other strategy considerations include appropriate implementation of warranties, breakout, and the consolidation of spare parts requirements (initial, follow-on, and replenishment). The logistics contract strategy must be compatible with the overall program acquisition strategy.



**Figure 17-1: Procurement Action Cycles (Full and Open Competition)**



**Figure 17-2: Support Contract Cycle (Sole Source)**

17.2.3.2 Acquisition Planning. In planning the acquisition of logistics data, materials, or services, the LM should work with (or support) the government team. They are responsible for significant aspects of the acquisition, such as contracting, financial, and technical, which are needed to create an acquisition plan (FAR 7.105). A wide selection of contract types is available, and provides flexibility in acquiring the needed logistics resources. These contracts vary according to the degree and timing of responsibility (risk) assumed by the contractor for cost and performance and the amount and nature of profit incentive.

Contract types are grouped into two broad categories: fixed-price contracts and cost-reimbursement contracts. Specific contract types range from firm-fixed-price, where the contractor is fully responsible for performance, cost, and profit (or loss), to Cost-Plus-Fixed-Fee (CPFF), in which the contractor has minimal responsibilities for performance and cost but receives a negotiated fee (FAR 16). In Cost-Plus-Incentive-Fee (CPIF) contracts, the government still bears the major risk; however, the contractor's fee, i.e., profit, will vary based upon the achievement of those objectives that were incentivized in the contract.

17.2.3.3 The Procurement Package. The Procurement Package encompasses most of the information the contracting officer needs in order to prepare a solicitation as prescribed by “Part I – The Schedule of the Uniform Contract Format” (FAR 14.201-2). It provides technical and management information including the range and depth of data, materials, and services to be acquired. A timely and comprehensive statement is required for each acquisition involving equipment or processes needing future support materials, services, or data. MIL-HDBK-245B, “Preparation of the Statement of Work (SOW),” provides specific guidance on how to identify and present information on logistics deliverables in a format consistent with life-cycle phase requirements.

The LM should be concerned with each part of the Procurement Package because logistics requirements are normally spread throughout the document. Care should be taken in selecting and describing related deliverables. Plans, drawings, specifications, standards, and purchase descriptions should be selectively applied and tailored to the particular application in the SOW. Heavy reliance must be placed on commercial and/or performance specifications since many military standards, which provided guidance and requirements related to logistics, were canceled as a result of the Federal Acquisition Streamlining Act of 1995.

After reviewing the available standards bearing on a given topic, select the fewest number of standards that encompass the desired range and depth of logistics tasking in such areas as planning, supply, manpower, personnel, and training. Specific applications should be tailored to meet program needs by selecting or modifying standard Data Item Descriptions (DIDs). The procurement package should include:

- guidance to the contractor about the government's baseline of logistics – objectives, requirements, importance relative to other program objectives, concepts, assumptions, constraints, and priorities;
- specific logistics tasks to be performed by the contractor, such as logistics analyses, logistics alternatives evaluations, preparation of plans and concepts, training courses, spares and repair parts, technical data, etc.; and

- incentives aimed at achieving the desired balance between logistics and other performance capabilities.

The terms used must be understandable and consistent with standard contractual clauses. "Buzz words," terms with multiple meanings, conflicting or unclear terms, and symbols must be avoided.

17.2.3.4 Evaluating Proposals. The LM identifies and defines what logistics considerations should be addressed in the offeror's proposals and helps to determine the relative importance (weight) of evaluation factors such as understanding of the problem, technical approach, "other technical factors," experience, and cost. Other technical factors should provide measurable and meaningful criteria related to the specific logistics support requirements of the proposed system. These logistics considerations are also incorporated in the overall Source Selection Plan (SSP) which contains the evaluation factors and weights for each factor. These must be on record with the contracting officer and incorporated into the Request for Proposal (RFP) prior to RFP release. In preparing for evaluation working group meetings, the LM should independently evaluate all technical proposal items related to logistics in order to contribute meaningful leadership in the discussions leading to source selection.

17.2.3.5 Contract Monitoring. A comprehensive contract file is a useful management tool. This file should include all procurement and administrative contract modifications, which are referred to as "P mods" and "A mods." Data in the contract file directly relate actual performance to actual cost and, when automated, do so in a timely manner. During the performance period, this data should be used to rapidly identify, examine, and resolve logistics problems that arise.

## **17.2.4 Contracting Methods**

The Competition in Contracting Act of 1984 requires agencies that are conducting procurements for goods and services to obtain "full and open competition" through the maximum use of "competitive procedures." This means that all responsible sources are encouraged to submit sealed bids or competitive proposals, depending on what is required by the solicitation.

There are two primary differences between the competitive procedures, which are known as sealed bids, and competitive proposals. The first difference relates to award factors. When sealed bids are used, the award will be based solely on price and other price-related factors. In contrast, competitive proposals permit consideration of other factors, such as technical merit, that go beyond cost in meeting the government's need.

The second difference involves the permissibility of negotiations to arrive at the business agreement. With sealed bids, discussions are not permitted, other than those needed for purposes of minor clarifications. Competitive proposals, however, do permit discussions and afford the offerors an opportunity to revise their offers subsequent to discussions. In context, "bargaining" refers to discussion, persuasion, and alteration of initial assumptions and positions. The give-and-take may apply to price, schedule, technical requirements, and other terms of the proposed contracts. The use of "other than competitive procedures," (sole source negotiations) is only authorized when the circumstances of the acquisition meet the criteria of one of seven identified exceptions (FAR 6).

## **17.3 MANAGEMENT ISSUES**

### **17.3.1 Data**

In the past, a major data problem has been the incomplete identification of data requirements and the lack of emphasis on procedures that ensure legible, complete, and correct drawing practices. Contract requirements for a Technical Data Package (TDP) must be traceable to the government configuration management plan, which, in turn, must implement the acquisition strategy approved by the Milestone Decision Authority (MDA).

It is not easy to verify that the delivered product drawings and associated lists (e.g., specifications; software documentation; preservation, packaging, packing, and marking data; test requirements data; and quality assurance provisions) will satisfy all needs for competitive procurement. Personnel preparing the data and those reviewing it should be able to determine whether they could manufacture the documented component "without additional design engineering or recourse to the original design activity." One review approach is to award an independent verification contract to a manufacturing or production engineering firm that has relevant hands-on manufacturing experience. The following guidelines are offered for developing technical data packages:

- Determine the level of specificity required for procurement purposes.
- Ensure that the parts descriptions and drawings are available so other participants in the acquisition understand what is being bought.
- Establish prices and options for data delivery only after the design is stable enough to make it useful.
- Obtain technical data on a phased schedule to permit breakout of vendor components for future competitive acquisitions.
- Inspect and validate the completeness, accuracy, and adequacy of data promptly after its receipt.
- Consult with the contracting officer to ensure that the current regulations concerning data rights and data restrictions (FAR 27) are incorporated in the solicitation.
- Technical personnel should review proprietary or other restrictive markings on drawings and, when appropriate, request the contracting officer to obtain a written justification from the contractor for the restrictive marking.

### 17.3.2 Spares and Breakout

Decisions affecting spares must be made very early in the life cycle of a system. As the program evolves, the LM must issue provisioning technical documentation guidance via the contract. This guidance should include milestones and feedback reporting to ensure that program-unique materials are promptly ordered. The LM must also ensure that follow-on spare and repair parts are obtained in a cost-effective manner. Relying on the original prime contractor for follow-on support material entails risks in the areas of cost and availability of needed spare and repair parts – especially during the postproduction support period (see Chapter 27). The LM should consider obtaining technical data, drawings, tooling, etc., to enable the Service to compete for follow-on logistics support. The cost of obtaining this capability must be weighed against the potential benefits of competition, particularly during an extended postproduction period. FAR, Part 7, requires the inclusion of detailed component breakout plans in the acquisition plan. In summary, to develop and deliver an effective spares package to future users, the LM should:

- ensure the timely and accurate assignment of procurement source codes (e.g., prime contractor, vendor, field manufacture, etc.) and challenge data rights and restrictive markings;
- require contractors to identify actual manufacturers;
- screen contractor-recommended parts lists to make full use of DoD and General Services Administration (GSA) supply systems;
- make sure parts already available in DoD and GSA supply systems are directly bought;
- order optimum quantities where significant savings can be obtained;
- base estimated unit prices on anticipated buy quantities rather than a single item; (Provisioning prices, i.e., prices established during the provisioning process, should not be used as the basis for determining the reasonableness of the price of future buys. Procurement history records should identify provisioning prices as such.)
- consider Spares Acquisition Integrated with Production (SAIP) where the government combines spare parts orders with planned production;
- encourage multi-year procurement of replenishment spares that are sensitive to quantity and front-end investment costs;
- ensure that all spare parts requirements (initial or replenishment) are combined to the maximum extent possible to achieve the savings of larger quantities; (Buying offices should alert users when frequent purchases of the same part are causing higher costs.)
- ensure realistic breakout and competition goals by considering savings potential and availability of procurement specialists to conduct competitions and breakout actions; and
- ensure that tradeoffs are made between inventory carrying costs and marketplace quantity discounts.

### **17.3.3 Contracts and Pricing**

A Program Manager (PM) often regards logistics contract considerations, such as identifying logistics deliverables and creating the logistics input to the SOW, as long-term issues that are less important than the immediate problems. As a result, logistics concerns are often deferred for later resolution. A common example is the acquisition of data needed for future support. Understandably, the PM with a funding shortfall is more likely to cut the long-term logistics requirements from the contract than items with immediate impact.

An OMB review found that a large number of unpriced orders are backlogged at many DoD activities. The time required for audit, cost or price analysis, and negotiation of a contractor's proposal may relate to the number of cost elements to be negotiated. Solutions have included reducing the number of cost elements to be analyzed as well as avoiding the use of Basic Ordering Agreements (BOAs) and the ordering (provisioning) clause for the large amounts of data and spares that can be firm-fixed-priced at the time the order is placed. Another solution is the use of forward pricing arrangements. These provide for advance negotiation of direct and indirect cost factors that can then be used for a mutually agreed upon time. The re-negotiated logistics cost factors facilitate efficient pricing of a contractor's proposal by providing more time to analyze direct costs. These factors can be routinely used by less experienced buyers and are easily adapted to a computerized system. Increased emphasis on negotiating forward-pricing arrangements should result in a decrease in the number of outstanding unpriced orders. Goals should be set and monitored for the control of unpriced orders.

### **17.3.4 Government Furnished Property and Other Promises**

The government's failure to provide promised Government Furnished Material (GFM) in a timely manner and in suitable condition may create a government liability for subsequent cost and schedule increases (FAR 52.245-2). Therefore, the LM should only identify GFM that the government can provide in a timely manner and in a condition suitable for use. If appropriate, the Contracting Office may allow the contractor to utilize MIL-STRIP procedures in obtaining the required GFM (FAR51).

### **17.3.5 Unrealistic Delivery or Performance Schedules**

The government is capable of creating such pressure in negotiated contracts that a contractor may feel obligated to agree to unachievable terms. Subsequently, the contractor may seek and receive relief from unreasonable requirements. Therefore, LMs should avoid issuing requirements on an urgent basis or with unrealistic delivery or performance schedules since it generally restricts competition and increases costs.

### **17.3.6 Incentives**

Incentive mechanisms in contracts are used to motivate contractors to exceed predetermined thresholds for performance, delivery, and reliability and maintainability (R&M), etc. Incentives provide this motivation by establishing a relationship between the amount of fee payable and the results achieved. When predetermined measurable incentives on delivery or technical performances are included, fee increases are provided for achievement that exceeds the targets; and fee reductions are made when targets are not met. Incentive contracts are addressed in FAR 17.4 and in a joint

DoD/NASA Incentive Contracting Guide. Logistics incentives should be designed to address one or more of the following conditions:

- Designs that tend to reduce logistics costs during the operational phase of the life cycle (increased use of standard components, reduced trouble-shooting time, etc.);
- Logistics system accelerated delivery (all elements) commensurate with accelerated program delivery; and/or
- R&M thresholds exceeded. (Incentives are established for significant goals that will yield increased combat effectiveness or decreased ownership costs.)

### **17.3.7 Warranties**

This topic is covered in Chapter 19, Section 19.

## **17.4 RISK AVOIDANCE**

The major risk area in logistics contracting, in terms of impact and the probability of its occurrence, is the failure to properly contract for data, materials, and services. Included are failures involving contractual promises by the government to furnish material and services and the imposition of unrealistic delivery or performance schedules. Impacts may include degraded support and readiness, cost growth, and loss of the taxpayers' good will and confidence. Contracting for support entails many areas of risk, which the PM must control. Permanent solutions to these problems are elusive unless management's attention is sustained at all levels. Without such attention, we will only repeat the mistakes of the past – a flurry of activity (amounting to overkill) dying out without producing meaningful or lasting improvements.

Toward the goal of improving logistics procurement practices, the Office of Federal Procurement Policy issued a report that offers more than 100 recommendations and suggestions aimed at avoiding well-known risk areas (Reference 2). Those most applicable to executive and working-level LMs are included in the guidance given in Section 17.3, "Management Issues." They may be used as a checklist, either to guide hands-on managerial efforts or to review the work of matrix personnel to ensure the price consciousness of their efforts.

## **17.5 CONTRACTING TOOLS**

- LOGPARS (The Logistics Planning and Requirements System). This system was developed for use on a desktop PC. It is an expert system, which leads a LM through the thought process necessary to plan and execute a logistics program. The latest version (June 1997) includes important acquisition reform emphases. This tool is available on the internet at:

<http://www.logpars.army.mil/alc/logpars/logpars.htm>

The system was developed by USAMC Logistics Support Activity, Redstone Arsenal, Alabama, and incorporates the required policy, lessons learned, and expert's experience to pro-

duce critical logistics program documentation. The systematic, user-friendly approach that LOGPARS offers ensures all considerations are addressed, encourages compliance with existing policy, and eliminates potential for contracting redundant information

- Turbo Streamliner. This tool was developed and is maintained by the Navy Acquisition Reform Office and is available on the Internet at:

<http://www.acq-ref.navy.mil/turbo/>

It provides a checklist of Acquisition Reform topics, an RFP checklist, guidelines for reporting metrics, lessons learned, and guidelines for streamlining an RFP. It also provides a guide for assessing the effectiveness of the Acquisition Reform initiatives in the contracts awarded, based on RFPs evaluated during Phase I of the RFP Benchmarking effort.

## **17.6 SUMMARY**

- Participation in the contracting process is part of the LM's job.
- Contract knowledge, initiative, and determination are essential in managing logistics programs.
- Logistics program success is a direct reflection of contract success.

## **17.7 REFERENCES**

1. The Federal Acquisition Regulations (FAR).
2. Office of Federal Procurement Policy. "Review of the Spare Parts Procurement Practices of the Department of Defense," June 1984.
3. MIL-HDBK-245B, "Preparation of Statement of Work (SOW)."
4. Defense Federal Acquisition Regulations Supplement (DFARS).
5. DARCOM Pamphlet 700-21, *Integrated Logistics Support Contracting Guide*.
6. DoD/NASA *Incentive Contracting Guide*, October 1969, Army Field Manual 38-34, NAVMAT Pamphlet 4283, AF 70-1-5.