
COMPETITIVE SOURCING

Provider	Private
Staffing	Private
Customers	Government
Source of funding	Direct appropriation
Distinctive features	OMB Circular A-76 requirements drive the process for many types of competitive sourcing; depots are specifically excluded from A-76 requirements
Implementation issues	<ul style="list-style-type: none"> • Standard contracting methods; sometimes requires A-76 study • Legislation required for certain services
Pros	<ul style="list-style-type: none"> • Allows agency or organization to concentrate on core competencies • Contracting-out may provide a lower-cost, higher-quality product than in-house provision • If an organization truly thinks about the desired product/service, contracting-out may provide the government greater control over the service/product
Cons	<ul style="list-style-type: none"> • Without proper contract oversight, fraud, waste, and abuse can occur • Initial savings estimates can be overstated • Employee and union resistance • Services may not be delivered as promised • Relinquished capabilities may be difficult to reestablish, if desired
Case studies	<ul style="list-style-type: none"> • A-76 competition, Altus Air Force Base, Oklahoma • A-76 competition, Parris Island, South Carolina • Aircraft and Missile Guidance System Depot Repair • Single Contracts for Multiple Support Services • Navy Aviation Maintenance Contract, TA-4J Skyhawks • The U.K. Inland Revenue Service • The British Army Logistics Information Systems Agency

CASE STUDY: A-76 COMPETITION, ALTUS AIR FORCE BASE, OKLAHOMA

Participants

Public: Air Force

Private: Most Efficient Organization (MEO) (in-house)

Background

In October 1994, the Air Force initiated a large A-76 competition for all aircraft maintenance at Altus Air Force Base (AFB), Oklahoma. Altus AFB is the U.S. Air Force's only Strategic Airlift and Air Refueling Training Center. Its primary mission is to provide quality training to produce combat-ready aircrew members for the Air Force. Aircraft maintenance at Altus currently includes full maintenance and support of all C-5, KC-135, C-141 transient aircraft, engine, and associated ground equipment, and C-17 backshop support.

The competition included 1,401 military positions and 43 civilian positions. Five contractors submitted proposals to compete against the MEO. After a six-month period of study of the submitted proposals, it was announced that the MEO won the competition. The in-house win required that the Air Force convert a workforce of 1,444 military personnel and 43 civilian personnel to a workforce of 742 civilians. The MEO was awarded a \$165.5 million multiyear award that is expected to save \$99.6 million over the life of the contract. The Altus contract is the largest contract to oversee all aircraft maintenance that the Air Education and Training Command has ever awarded to an in-house organization (U.S. GAO, 1999a).

The entire effort took 23 months, 17 of which involved some contracting actions. The A-76 study took place concurrently with roughly one-half of the entire procurement process (U.S. GAO, 1997b).

Results

According to Air Force officials, problems have been associated with the transition of the workload at Altus. Specifically, full implementa-

tion of the MEO had to be extended 17 months—from December 1996 to April 1998—because of hiring problems. The winning competition required transitioning from a mostly military operation to one operated by government civilians. As a result, heavy civilian recruiting was necessary to get the MEO running. Altus found that it needed time to recruit enough personnel for the work. During the transition, the Air Force arranged for some of the maintenance work to be completed by other organizations. During the transition, the Air Force consolidated its personnel function into one location, causing further delays in hiring (U.S. GAO, 1999a).

No cost comparison data are available yet.

CASE STUDY: A-76 COMPETITION: BASE OPERATING SUPPORT AT PARRIS ISLAND, SOUTH CAROLINA¹

Participants

Public: Marine Corps

Private: Contractor

Background

Parris Island, a Marine Corps Training Depot (MCTD), is one of the two Marine Corps boot camps. All male recruits from east of the Mississippi and all female recruits attend boot camp at Parris Island. MCTD-Parris Island also houses specialized schools such as Non-commissioned Officer (NCO) Leadership, Field Music, and Personnel Administration. In 1982, MCTD-Parris Island began an A-76 study for a multifunction base operating support (BOS) contract that included refuse collection/disposal, grounds and surface maintenance, family housing, and other building maintenance.

The A-76 competition that lasted five years was won by a contractor headquartered in North Carolina that bid \$19 million. The MEO bid was \$27 million. Officials used a two-step sealed-bid process in which the lowest bid wins. The contract was a small business set-

¹Case material comes from Tighe et al. (1997).

aside. Only three small businesses bid on the contract and no local company bid. The fixed-price contract that included an indefinite quantity/delivery portion ran for one base year plus four option years. This contract displaced 263 government workers. Of these individuals, 12 percent retired, 31 percent were reassigned, and 57 percent were separated. According to Parris Island personnel, on the contract start date, 217 of the 263 displaced workers had jobs. A year passed between the contract win and the contract start date in 1988.

Results

The Paris Island BOS contract had many problems and resulted in the work being brought back in house in 1992.

When the contractor took over BOS services in 1988, a worse situation than expected existed. The long A-76 process had reduced morale, especially during the one-year period between the contract award and contract start. The most qualified workers left quickly and those who remained were not as productive. As a result, serious backlogs accumulated.

Great tension existed between MCTD-Parris Island managers and the contractor. Quality assurance (QA) evaluators monitored the contractor's performance and required that substandard work be redone. Many conflicts and performance arbitration proceedings between the contractor and the QA inspectors occurred. A large proportion of the disputes concerned government-furnished equipment and supplies such as the steam-generating power plant and the sewage treatment plant. The government argued that they were not being properly maintained and operated whereas the contractor demanded improvements and upgrades to the facilities.

Further, MCTD-Parris Island managers found that the indefinite quantity delivery (IDQ) component of the contract was too small to respond to surge requirements. The contract had capped the IDQ jobload at average levels. As a result, "above average" requirements had to be negotiated as a change order with the contractor.

In 1991, the contractor filed for bankruptcy for reasons unrelated to the Parris Island contract. As a result, MCTD-Parris Island chose to bid the contract again and selected a new contractor from eight bidding firms. In this contract, the performance work statement was more complete and the new contract featured more penalties for nonperformance. The contract was for \$44 million over a five-year period—substantially more than the initial MEO bid of \$31 million (1991 dollars).

In 1992, only ten months into the contract, the government declared that the contractor had defaulted and chose to bring the functions back in house. When the second contractor defaulted, workers were offered the chance to stay on and transition to the in-house workforce. Of more than 200 employees, roughly 160 stayed on as temporary government employees. Eventually, 130 became full-time government workers.

Lessons Learned

Tighe et al. (1997) report lessons learned from the Parris Island experience. First, there is a learning curve on both sides when outsourcing and recent outsourcing initiatives by Parris Island have been successful. Second, the long competition process is extremely difficult for morale and may affect work performance and the condition of the workload the contractor is assuming. Thus, competitions should be performed as quickly as possible and long delays between the contract award date and contract start date should be avoided.

Tighe et al. also suggest that when contracting for a service where accountability is easily blurred, such as contractor operation of in-house power plant, an arm's-length relationship may not work well. They also note that a negotiated competitive process rather than a sealed-bid process would have better protected quality. Further, industry standards and practices should play a key role in designing performance work statements and performance-based contracts.

CASE STUDY: AIRCRAFT AND MISSILE GUIDANCE SYSTEM DEPOT REPAIR²

Participants

Public: U.S. Air Force

Private: Boeing North American, Inc., and Wyle Laboratories

Background

Aerospace Guidance and Metrology Center (AGMC) was closed as a result of a decision of the Base Realignment and Closure Commission (BRAC). BRAC recommended the closure of AGMC, noting that the workload could be privatized or moved to other depot maintenance sites. Before closure, AGMC supported depot maintenance and metrology and calibration.

In response to the BRAC recommendation, the Air Force moved a small portion of AGMC's Air Force workload to other Air Force depots, the Navy moved most of its AGMC workload to other sites, and the Army moved all of its workload to other sites. The Air Force decided to privatize-in-place the remaining AGMC workloads. At the time of this decision, the Air Force relied on an analysis that estimated that privatizing would save about \$5 million in 1997. Since October 1996, the Newark, Ohio, facility has been operated as the Boeing Guidance Repair Center (BGRC) by two contractors—Boeing North American, Inc. (Autonetics Electronics Systems Division) and Wyle Laboratories.

After a nine-month transition period, the first full year of the BGRC contract operations began in October 1996. After the first quarter, Ogden and Oklahoma City logistics center personnel noted that funds were being expended faster than anticipated for the BGRC contract. As a result, Headquarters, Air Force Materiel Command (AFMC) undertook an evaluation that compared contractor versus Air Force depot costs for the FY 1997 workload. The analysis compared both actual and estimated aircraft and missile inertial navigation system repair and metrology costs at the Boeing Guidance

²This case draws heavily upon U.S. GAO (1997b).

Repair Center to actual historic costs for comparable workloads prior to privatization-in-place.

Contract Provisions

In December 1995, the Air Force awarded Rockwell International a five-year \$246 million cost-plus-award-fee contract to assume AGMC's repair mission and awarded a five-year \$19 million cost-plus-award-fee contract to Wyle Laboratories to operate the metrology laboratory. In 1996, Boeing acquired Rockwell International and assumed Rockwell's contract. The Air Force retained about 130 government employees at Newark to review and certify the operations of the Air Force's 130 metrology laboratories and to assist the Defense Contract Management Command in monitoring Wyle Laboratories' metrology contract.

Reported Results of Interim Study

An Air Force interim evaluation found that the first full year of operations at the privatized-in-place center will likely cost \$14.1 million more (a 16 percent cost increase) than it would have cost if the facility had continued to operate as a public activity.³ Estimates ranged from a \$7.7 million to a \$31.2 million increase. The study identified three cost factors that contributed to increased costs at the facility: material costs, contract administration, and award fees. The Air Force study estimated an increased material cost of \$3.4 million. Although there has been increased ordering of material, it is uncertain how material consumption will compare over a longer period. Considering the significant increase in material orders and the absence of actual consumption data from Boeing, GAO found it reasonable for AFMC to reflect this increase in its treatment of material consumption. The evaluation found that contract administration and oversight cost \$5.5 million and estimated contractor award fees of \$5.2 million.

³An updated cost study showed the cost difference between government and private operation of the facility to be more than 20 percent (private communication from Air Force Installation and Logistics (AF/IL), dated 8 November 1999).

Boeing questioned AFMC's assessment, stating that Boeing's estimate was about \$6.8 million lower than costs before privatization-in-place. Boeing also noted that it is exceeding contract quality requirements and minimum delivery schedules. The Air Force believed Boeing's cost analysis incomplete. For example, Boeing's estimate did not include contract administration and oversight costs of about \$3.4 million, and it overstated historic operations and maintenance costs by about \$5 million.

U.S. GAO (1997b) found that the AFMC interim study was methodologically sound and that it used the best available data, but GAO notes that this is an interim analysis and actual costs will not be known until the data are available.

CASE STUDY: SINGLE CONTRACTS FOR MULTIPLE SUPPORT SERVICES⁴

Participants

Public: Base/military installation

Private: Private, for-profit entity

Background

Base operations support services are functions necessary to support, operate, and maintain DoD installations. The military services differ in their definitions of base support services making it difficult to determine the actual size and cost of this workforce, but DoD estimates that base support activities cost more than \$30 billion in FY 1997. Increasingly, DoD is outsourcing commercially available support services (U.S. GAO, 1998).

Because of Congressional interest in potential savings that could be achieved by using a single contract, rather than several smaller contracts, to encompass multiple base operations, GAO surveyed existing single contracts for multiple services. GAO found that the decision to use a single contract occurred either as a result of an A-76

⁴This case draws heavily upon U.S. GAO (1998).

study or at the time the installation or its current mission was established. At the installations surveyed, not all base operations support requirements were met through the single contract. Rather, installations relied on some combination of single contract for multiple services, single contracts for specific services, regional contracts for specific services, and the use of in-house personnel. The types of services procured under the multiple service contracts vary depending on the mission and functions of the installation, missions of tenant activities, existing contractual arrangements, legislative restrictions, and a desire to keep some functions in house (U.S. GAO, 1998).

Contract Provisions

Most of these contracts are fixed-price-award-fee contracts that place maximum risk on the contractor and minimum risk on the government. For example, Naval Submarine Base Bangor awarded a ten-year multiple support services contract to Johnson Controls World Services, Inc., in 1997. The contract is a fixed-price-award-fee contract for a base price of about \$40 million annually. The contract provides a wide range of base support services including administrative support, various public works services, utility and supply services, and security services. It contains provisions for Johnson Controls World Services, Inc., to meet ISO 9000 standards to better ensure they can meet customer requirements and help reduce the monitoring costs.

Major Facilitating Factors

The types of services procured under multiple service contracts are influenced by the mission and functions of the installation, missions of tenant activities, existing contractual arrangements, legislative restrictions, and a desire to keep some functions in-house. Individuals having implemented such contracts stress that a well-defined performance work statement improves the contract's success (U.S. GAO, 1998).

Major Constraining Factors

Although some small businesses do compete in single multiple service contracts, concern remains that it is difficult for them to compete because of the high cost of preparing proposals and the low probability of winning the contract when competing with large businesses. The effect on small businesses is a concern for DoD because of a requirement, contained in the Small Business Administration Reauthorization Act of 1997, that federal agencies consider the impact on small businesses' ability to compete when considering consolidating activities previously performed by small businesses into multiple services contracts (U.S. GAO, 1998).

Results

Although contracting officials report efficiency gains, including reduced overhead, cross utilization of contract personnel, and increased flexibility, cost savings from single contracts are not documented. At most of the installations, savings cannot be easily quantified because there is no requirement to track savings. Further, contracts have changed since the initial commercial activities studies were completed, so little basis for comparative analysis exists (U.S. GAO, 1998).

CASE STUDY: NAVY AVIATION MAINTENANCE CONTRACT, TA-4J SKYHAWKS⁵

Participants

Public: U.S. Navy

Private: Lockheed, Grumman, and UNC Aviation Services

Background

Maintenance work for the organizational- and intermediate-level maintenance of the A-4s and the T-2 Buckeyes that are flown by the

⁵This case draws heavily upon Tighe et al. (1997).

training commands was competed in an A-76 competition in the mid-1980s. The winning bid for the A-76 competition was about 20 percent lower than the in-house bid, after contract management and competition costs were included.

The conversion to contract maintenance began in July 1986 with Training Wing Two and concluded in June 1988 with Training Wing Six. The aircraft maintenance has been competed three times and three different contractors have won each competition. Lockheed won the initial bid, Grumman the second, and UNC Aviation Services the third.

Contract Provisions

The contract covers the organizational- and intermediate-level maintenance of the A-4s and T-2 Buckeyes that are flown by the training commands. It is a fixed-price contract for one base year plus four option years.

Results

The Center for Naval Analyses (CNA) conducted a study to determine if the change to outsourced maintenance was beneficial or detrimental to the quality of aircraft maintenance provided to the training commands. CNA compared the quality and cost of in-house and contracted maintenance of the TA-4J Skyhawk aircraft. This jet was chosen because data existed for both in-house and contracted maintenance. CNA used fully mission capable (the percentage of time the aircraft is fully ready, with no system degradations) and mission capable (percentage of time the aircraft is ready to fly, and not degraded by system discrepancies) as quality measures and direct maintenance man-hours per flight hour (the amount of organizational-level maintenance completed for every flight hour) as a cost measure (Tighe et al., 1997).

CNA found that after the initial contract went into effect, there was a long break-in period during which the contractor's performance was lower than the previous performance of in-house personnel. It was almost four years before the contractor reached the mean level and two years before the contractor's performance began to improve.

Thus, for two to four years, training commands suffered a reduced mission-capable rate (Tighe et al., 1997).

After the break-in period, the contractor met or exceeded the previous in-house level of quality and did so using fewer resources. The contractor provided an equivalent amount of flight hours with a 33 percent reduction in direct maintenance man-hours, reducing costs and saving resources. Interestingly, no break-in period was observed when one contractor took over from another. The cost savings continued in subsequent contracts, even with a change in contractors (Tighe et al., 1997).

CASE STUDY: THE U.K. INLAND REVENUE SERVICE⁶

Participants

Public: U.K. Inland Revenue Service

Private: EDS

Background

The objectives of the Inland Revenue Service were to bring about faster implementation of new tax systems, increase its national compliance rate, and decrease its operational costs. They entered into a ten-year risk/reward contract with EDS for tax systems modernization in July 1994. This contract called for outsourcing of all information-technology-related services that support tax assessment and collection. EDS assumed operational responsibility for 11 computer data centers and successfully transitioned over 1,900 employees to EDS. In July 1995, the Inland Revenue Service asked EDS to assume technical responsibility for the development of the Self Assessment Tax system, touted as one of the major reforms in the U.K. taxation system. In January 1996, EDS took over responsibility for application development including product delivery, process management, and productivity. As a result, they transitioned an additional 1,000 civil service employees to EDS, including the Application Development Team. EDS initiated a tactical improvement program

⁶This case draws heavily upon materials supplied by EDS.

for the entire joint team, which included a performance metrics program and adoption of its corporate standards for project management and its Systems Life Cycle methodology as the development standard.

Major Facilitating Factors

The major drivers on the part of the Inland Revenue Service to outsource were to improve service to citizens, increase revenues, and control costs. For example, the contract promised savings of £225 million over the lifetime of the contract. The second was EDS's agreement to transition all affected civil service employees at comparable pay and benefit levels. Another important factor was clear specification of performance metrics with which to measure EDS's performance: quality of service, customer service, timeliness of performance, cost control. In addition, the Inland Revenue Service's willingness to treat EDS as a partner and to have an EDS representative participate in senior board level meetings was an important factor contributing to the success of the partnership, along with the shared risk and reward nature of the relationship.

EDS has identified a number of factors critical to the success of such partnerships:

- Enterprise plan, sponsorship, and buy-in
- Stakeholder involvement
- Procurement must support goals
- Flexibility to change roles as requirements change
- Requirements management plan
- Accurate project progress visibility
- Single responsibility for integration
- Transformation and change management expertise and plans
- Availability of experienced skill base and resources
- Appropriate incentives

- Ability to achieve private and public sector success
- Appreciation for cultural differences (O'Malley, 1999)

Major Constraining Factors

Opposition from the staff association was the major constraining factor. They had questions asked in Parliament, mounted a vigorous lobbying campaign, and warned about the dangers of tax data in the hands of an American private company.

Results

As of June 1997, the Inland Revenue reported that one million self-assessment tax forms were filed and only 5 percent had to be returned to taxpayers. Further, the Inland Revenue's computer systems performed very well (*Financial Times*, June 19, 1997). In addition, EDS reports that cost savings from this partnership amount to 15–20 percent of Inland Revenue's current IT costs or \$300 million in savings to date. EDS maintains an open book arrangement and has profit shared every year on IT cost savings. EDS has hit or exceeded targets with respect to quality of service and customer service every year, and EDS staff have received awards for design and usability of their ideas/processes. Employee turnover has been less than 5 percent since 1994.

Notes

- For an opposing point of view, see Davies (undated). He cites a study by Wilcocks of Templeton College, Oxford, which analyzed 61 outsourcing deals in Europe and the United States; the expected savings did not materialize or were invisible (including several deals of the EDS/U.K. Inland Revenue Service type). The greatest chance of failure came from long-term contracts in which all IT was outsourced.
- There is a great deal of concern about privacy issues, with this much information in the hands of a private contractor.

- There is also concern about the way in which a private contractor could hold the government for ransom, should they decide to go with another contractor.

CASE STUDY: THE BRITISH ARMY LOGISTICS INFORMATION SYSTEMS AGENCY⁷

Participants

Public: The British Army Logistics Information Systems Agency

Private: EDS

Background

One of the U.K. Ministry of Defence's priorities is to modernize IT services and to provide the most effective logistical support to the British Army. LISA detailed several key business goals including a detailed examination of processes and redesign of these, where needed; adoption of best practices in the delivery of IT services; design of a structured approach to logistics system modernization; and consolidation and outsourcing of existing systems. In December 1995, EDS won a five-year contract to provide a complete range of IT services to LISA. EDS currently provides all IT services, business process reengineering, systems development, and modernization, and also operates two GOCO data centers.

Major Facilitating Factors

The major facilitating factors included the department's desire to become more cost-effective and to modernize, EDS's reputation as a leader in IT and in building private-public partnerships, and EDS's assimilation of former government workers into the EDS workforce. EDS transferred 180 government personnel to EDS.

⁷This case draws heavily upon materials supplied by EDS.

Results

The partnership has resulted in \$30 million of documented savings with more expected as planned improvements are implemented with no degradation in service as a result of EDS taking over the strategic logistics system. EDS has completed the Year 2000 requirements analysis; implemented a commercial-off-the-shelf (COTS)-based financial management system; and improved system responsiveness with the migration of ammunition management and asset tracking systems to modern platforms.