ACQUISITION AND TECHNOLOGY

THE UNDER SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-3010

APR - 5 2000

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
DIRECTORS, DEFENSE AGENCIES
DIRECTOR, DEFENSE LOGISTIC AGENCY

SUBJECT: Performance-Based **Services** Acquisition **(PBSA)**

As services become an increasingly significant component of what the Department buys, we must ensure #at we acquire them effectively and efficiently. That is why the use of performance-based acquisition strategies for services remains among my highest priorities. This is important for all functional communities involved in the service acquisition process. It is the policy of the Department of Defense (DoD) that, in order to maximize performance, innovation, and competition, often at lower cost, performance-based strategies for the acquisition of services are to be used wherever possible. While not all acquisitions for services can be conducted in a performance-based manner, the vast majority can. Those cases in which performance-based strategies are not employed should become the exceptions.

In order to ensure that the Department continually realizes these savings and performance gains, I establish, at a minimum, that **50** percent of service acquisitions, measured both in dollars and actions, are to be performance-based by the year **2005**. To achieve this goal, I further direct that the Military Departments and the Defense Logistics Agency develop a **PBSA** implementation plan to increase the use of performance-based service acquisition strategies within their organizations not later than **60** days from the date of this memorandum. In addition, training is essential to increasing performance-based acquisition for services, and I am committed to providing to the acquisition workforce the training and tools needed to define, acquire, and manage service requirements efficiently and effectively. For example, the National Association of Purchasing Management and the National Contract Management Association have each collaborated in the development of a **PBSA** course, available via the Internet or for on-site team training. I ask that you ensure that your relevant workforce take this or equivalent performance based services acquisition training within the next twelve months. As well, **PBSA** templates and guidebooks will be available to the entire workforce by May **2000**.

The attachment provides the necessary details regarding the **PBSA** implementation plan, training requirements, and other Department-wide **PBSA** initiatives. The use of true performance-based strategies for the acquisition of services offers great benefits to the Department. I look forward to your efforts to ensure the fullest possible implementation of such strategies.

J. S. Gansler

Attachment
As stated

PERFORMANCE BASED ACQUISITION STRATEGIES AND TOOLS

POLICY GUIDANCE

In pursuing a performance based strategy, it is essential that our acquisitions for services meet basic standards, as defined by Subpart **37.6** of the Federal Acquisition Regulation (FAR). Specifically that service requirements should be articulated using: results required rather than methods of performance of the work; measurable performance standards (i.e., in terms of quality, timeliness, quantity, etc.); quality assurance surveillance plans; and specific procedures for reductions of fee or price when services are not performed or do not meet contract requirements. In addition to these basic requirements, contracts may also include positive incentives for performance exceeding the minimum standard, wherever appropriate. In essence, **PBSAs** should articulate clear, measurable requirements emphasizing quantifiable outcomes, with compensation based on performance measured against those outcomes, and integrated with a quality assurance surveillance plan describing how suppliers' performance will be evaluated against those measurable requirements. This allows offerors maximum flexibility to attain the greatest degree of innovation and creativity. Too **often,** the Department has contracted for services that, in fact, limit the scope of innovation offerors can bring to the process. Studies have documented that services requirements converted to a performance-based approach have generated both significant savings and performance gains.

The appropriate use of performance-based acquisition strategies also enables the Department to turn more readily to commercial marketplaces for required services, using the procedures in FAR PART **12** when the necessary conditions are met. In so doing, the Department can take far greater advantage commercial sources and practices whenever and wherever possible. It may be beneficial to provide contract incentives to contractors based on their performance even in a fixed price environment, as is widely done in the commercial world. Use of frequent performance-based milestone billing schedules to assure appropriate cash flow to performing contractors is encouraged.

IMPLEMENTATION PLAN

Implementation plans are to be submitted through the Deputy Under Secretary of Defense, Acquisition Reform **(DUSD** (AR)) and must address:

- Effective distribution of guidance and key criteria on **PBSA** to the widest possible segment of the relevant **workforce,** i.e., program managers, the requirement community, contract administrators, and any other related functional communities.
- Business areas that will be the focus for performance based acquisitions, metrics, and a detailed training plan with milestones.
- Method for collecting agency performance data regarding the use of **PBSA.** (Note: **PBSA** performance data will be obtained from the Federal Procurement Data System beginning in **FY01** . Until that time, the requisite data can be collected in whatever manner each individual Military Department of **DLA** deems appropriate.)

TRAINING INITATIVES

There are a number of initiatives underway to provide specialized training on performance-based acquisitions, applicable and accessible to the widest possible scope of the acquisition and technology workforce. In an effort initiated by the **DUSD(AR),** each of the Military Departments and **DLA** participated in the development of a performance-based service acquisition course, which is the product of a collaboration between the National Association of Purchasing Management and the National Contract Management Association. Through the **DoD** Change Management Center, this course is now available in both a web-based and live on-site versions and is a key component of the **DoD** continuing education initiative. The Change Management Center also offers this on-site version, coupled with the Rapid Improvement Team process, to develop on-the-job **PBSA** applications.

OTHER DEPARTMENT-WIDE PBSA INITIATIVES

The **DUSD(AR)** and the Director, Defense Procurement formed a working group to develop a concise guide on **PBSAs**. This web-based guide will be available throughout the **workforce** to ensure a common understanding of the challenges, issues, and benefits associated with **PBSAs**. The guide will be available in May **2000**.

Templates will supplement the guidebook. These templates are examples of good **performance-**based packages: statements of objectives or statements of work, measurable performance standards, surveillance plans, deduction schedules (if performance falls below minimum standards) and positive incentives. They will be available on-line and will cover an array of service requirement scenarios. Templates will be based on existing best practices and will be made available as they are identified.