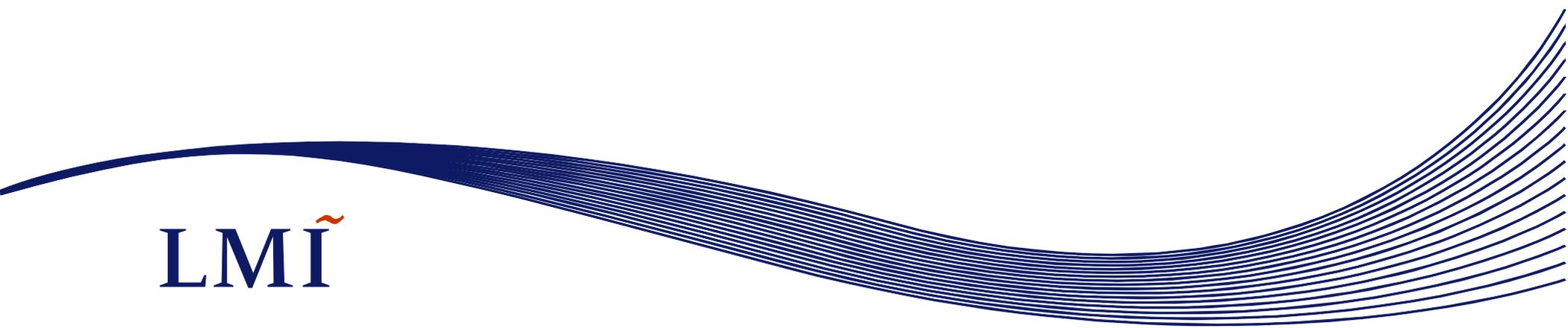


# Limits of Competition for Depot Maintenance Contracting

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LMI

A decorative graphic at the bottom of the slide consisting of a series of parallel, wavy lines in a dark blue color, creating a sense of movement and depth.

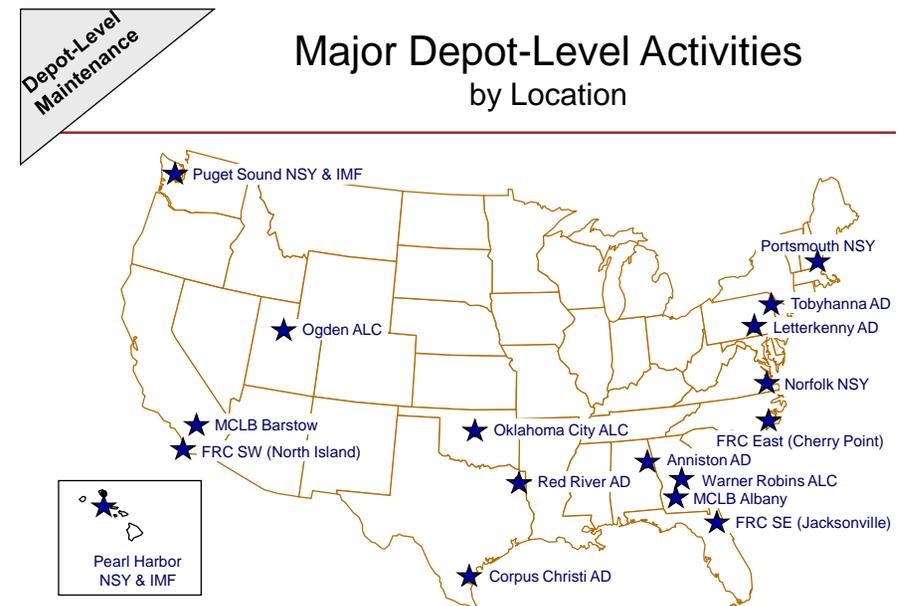
# Overview

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- Backdrop of depot maintenance
- Depot maintenance distinctives
- Depot maintenance organization
- Evolution of depot maintenance
- Allocating depot maintenance workloads
- Key trends and limitations
- Protecting organic capability
- Preserving commercial industry capabilities
- Ongoing quest for new solutions

# Backdrop of Depot Maintenance

- More than 80,000 government employees
  - Roughly equivalent contract employees
- 17 major government depot activities
  - More than 1,700 active contract locations
- Annual operating cost more than \$34 billion



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# Depot Maintenance Distinctives

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- The ultimate source of repair
  - Technologies, products, services
  - Operating licenses and hazard permits
  - Inherent manufacturing capabilities
- Unique organic maintenance organizations
  - Process integration
  - Multi-commodity repair operations
  - Predominantly civilian work force
- Contract activities
  - Similar distinctive maintenance capabilities
  - Ability to use “warm” production lines
- Integration of additional product support elements
- Purpose-built infrastructure
- Not a competitive free market
- Public Law governs many aspects of sourcing

# Organization

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- Organic Depots
  - Support military sustainment missions
  - Requiring activities range from program offices to inventory control points to contingency contracting activities
- Contract Sources
  - Typically integral to OEM
  - Same range of requiring, contracting activities

# Evolution of Depot Maintenance

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- Heritage from War of 1812
- Modern depots framed in WWII
- Advent of commercial sourcing began in 1970s
- Growing proportion of contract maintenance
- Defense policy preferred commercial sources (since revised)
- Presumption about competitive sourcing
- Up to 75% of depot workloads supported with partnerships

# Evolution of Depot Maintenance - Continued

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- Public-private contracting experiment 1990s
  - Organic depots won about half
  - Culmination with privatization in place initiatives, BRAC 1995
  - Abandoned due to cumbersome procedures, issues regarding cost data, management
- High cost of technical data
  - Commonly no longer purchased
  - More than 80% of contemporary depot maintenance contracting is single-source
    - OEM is typically only respondent to solicitations
    - Exceptions for commercial derivatives, standard items
    - Organic depots are only viable alternative source

# Allocating Depot Maintenance Workloads

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- Core methodology (DoDI 4151.20)
  - Mandated by 10U.S.C.2464
  - Organic depots must possess at least some capability to support combat-tasked weapon systems
  - Workload “above core” can be contracted
- 50/50 limitation on contract expenses (10U.S.C.2466)
- Depot Caucus
- Sustaining a public-private balance

# Key Trends and Limitations

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- Trends
  - Workload peaked in 2007 (OIF), gradually declining
  - Prospective impact of OEF retrograde
  - Prospective impact of DoD budget reductions
  - High cost of special-purpose repair capabilities (F-35 SIL)
  - Search for cost-effective alternatives
- Limitations
  - Depot maintenance has limited sources
    - Exacerbated by A&D consolidations
  - Endemic lack of technical data limits options
  - Cost vs. management accounting systems
  - Extended administrative and contract lead times
  - Reduced contract administration oversight
  - Non-economic core, 50/50 decisions

# Protecting Organic Capability

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- The only plausible alternative to single-source contracts
- Built-in rapid response capacity
- Multiple commodity capabilities
- Diverse capabilities can support “last source” and limited manufacturing requirements
- Primary focus on maintenance, CITE designations

# Preserving Commercial Industry Capabilities

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- Economies of using “warm” production lines
- Substituting repair for manufacturing to preserve capabilities
- Application of related product support elements
- Outmoded competitive sourcing arguments giving way to PBL arrangements

# Ongoing Quest for New Solutions

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- Weapon System Acquisition Reform
  - Enhanced use of partnerships
    - Organic access to technical data
    - OEM gains supply chain visibility
    - Application of PSEs, supply chain
    - Economics of combined workloads
    - Earlier partnering, easier justifications
  - Increased use of PBLs
- Last source, reverse engineering
- Legislative and policy initiatives
- Metrics
- Potential third sources
- Better strategic planning
- Cost reduction initiatives