1. PURPOSE. The Acquisition Business Case Analysis (BCA) is a document that identifies viable functional alternatives and presents economic and technical arguments for carrying out alternatives over an acquisition life cycle to achieve stated business objectives. The Acquisition BCA is designed to identify costs and benefits that the Defense Logistics Agency (DLA) will realize through the initiation of supply and services acquisition strategies. This analysis will help determine the alternative that is in the Government's best interest. The BCA process compares DLA's current "as-is" (status quo) benefits and costs of doing business to the benefit and costs of viable acquisition alternatives.

2. APPLICABILITY. This DLA Instruction (DLAI) applies to Headquarters (HQ) DLA and all DLA Primary Level Field Activities (PLFA).

3. POLICY.

   a. Formally documented analysis in the form of a BCA is required to justify all investments, which are requirements that are over certain dollar thresholds (see specified Acquisition Approval Thresholds in enclosure 1, paragraph 2), have a potential to significantly impact operations, or are otherwise directed by DLA Acquisition Management (J-7) to require a formal cost/benefit analysis (see determination levels in enclosure 1, paragraph 1). A BCA is not required for a proposed acquisition in the following four circumstances. The basis for the exemption should be documented in the Acquisition Plan.

      (1) Exemption 1: The acquisition is a follow-on contract with inconsequential differences from the previous acquisition where a BCA already demonstrated the acquisition was in the Government's best interest; or

      (2) Exemption 2: The acquisition is for less than the thresholds in enclosure 1, paragraph 2, and market research shows there is only one supplier capable of meeting the solicitation requirements; or
(3) Exemption 3: The acquisition is a routine acquisition of supplies and the end-item will be delivered to DLA stock at the depots, Defense Fuel Supply Points, or other Energy/Fuel delivery points; or

(4) Exemption 4: The acquisition value is at or below the applicable Simplified Acquisition Threshold.

b. The BCA assists DLA managers in making decisions on whether to implement an acquisition arrangement by comparing the Government's costs to the associated benefits of the alternative. The results are analyzed and compared to determine the most efficient and effective means of support. The BCA process gives managers the information necessary to make the best business decision possible on initiatives that affect right item, right time, right place, and right price. It also serves to document how the decision was reached.

c. A BCA I is a short preliminary BCA that addresses the best estimates of functional process costs and benefits. This type of BCA uses the best data available at the time of the document's development. It has the same format as a BCA II, but is generally based on estimates and projections and is therefore usually shorter. For other than supply and service acquisitions, the BCA I compares the status quo with three viable alternatives. Even though supply and service acquisitions are not required to have three alternatives, all viable alternatives will be considered. The BCA is a starting point in the process of evaluating the viability of pursuing potential sourcing alternatives. The BCA is an element in the development of the acquisition strategy and establishment negotiation objectives.

d. Prior to Milestone B approval, the BCA is updated during the contract award process.

e. Evaluate the acquisition. The BCA process gives managers the information necessary to make the best decision possible on initiatives. It also serves to document how the decision was reached.

(1) Following contract award, the Acquisition Manager ensures that the goals, objectives, and performance criteria identified in the BCA are met. The actual savings, generated by pre-award efficiencies and innovations estimated in the BCA will be used to defray any increased contract administration costs. The BCA includes metrics which will track actual savings.

(2) Over the course of contract performance, the original BCA for the acquisition will be updated based on actual experience and reviewed to determine whether the projected results have been achieved in terms of return on investment. At a minimum, the BCA will be updated, before each option exercise, when there are significant changes during contract performance, and at completion of contract performance. Achievement of contract objectives will be compared with performance against contract metrics and
the metrics will be analyzed to determine whether they are properly correlated with objectives.

4. RESPONSIBILITIES. Refer to Enclosure 2.

5. PROCEDURES. Refer to Enclosure 3.


COL Thomas M. Laffey, USAF
Director, DLA Enterprise Support

4 Enclosures
   Enclosure 1 – References
   Enclosure 2 – Responsibilities
   Enclosure 3 – Procedures
   Enclosure 4 – Additional Information
Enclosure 1

References

1. Required Analysis Tools.

<table>
<thead>
<tr>
<th>$Threshold *</th>
<th>Required Analysis at Contracting Activity</th>
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</thead>
<tbody>
<tr>
<td>&lt; $5M</td>
<td>As determined by Contracting Activity</td>
</tr>
<tr>
<td>≥ $5 - $20 M</td>
<td>VSRM*</td>
</tr>
<tr>
<td>&gt; $20 M</td>
<td>BCA which includes VSRM</td>
</tr>
<tr>
<td>All DLA/Military Service Partnerships</td>
<td>BCA which includes VSRM</td>
</tr>
<tr>
<td>Significant Impact on Operations, as determined by J-7</td>
<td>BCA which includes VSRM</td>
</tr>
<tr>
<td>High Importance Acquisition, as determined by J-7</td>
<td>BCA which includes VSRM</td>
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</table>

*Value of base period plus option periods.  *Vendor Stock Retention Model (VSRM)

<table>
<thead>
<tr>
<th>Type of Action</th>
<th>Type of BCA</th>
<th>Approval Thresholds</th>
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</thead>
<tbody>
<tr>
<td>Exemption (1) in paragraph 3. (a.) (1)</td>
<td>N/A</td>
<td>DLAD 7.104-90, -91 and 37.590-4</td>
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<tr>
<td>Exemption (2) in paragraph 3. (a.) (2)</td>
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<td>DLAD 7.104-90, -91 and 37.590-4</td>
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<td>Exemption (3) in paragraph 3. (a.) (3)</td>
<td>N/A</td>
<td>DLAD 7.104-90, -91 and 37.590-4</td>
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<tr>
<td>Exemption (4) in paragraph 3. (a.) (4)</td>
<td>N/A</td>
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<tr>
<td>AAPT (at the time documents are submitted to HQ DLA for review)</td>
<td>I</td>
<td>Table, DLAD 7.104-91 and 37.590-4</td>
</tr>
<tr>
<td>AAPT (at the time of contract award; keep updated BCA in contract file)</td>
<td>Update to BCA I</td>
<td>Table, DLAD 7.104-91 and 37.590-4</td>
</tr>
<tr>
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<tr>
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<td>Exercise of Option</td>
<td>Updated</td>
<td>DLAD 7.104-90 Table 1 or 2 and 37.590-4, as applicable to the type of procurement</td>
</tr>
</tbody>
</table>

3. Required analysis must adhere to the Office of Management and Budget (OMB) and Department of Defense (DoD) guidance on conducting analyses:


4. For Tailored Vendor Relationships (TVR) and Prime Vendor arrangements, the attached BCA Checklist is required to be completed and submitted with the BCAs.

5. Records created as a result of the BCA development and process must be managed according to the following guidance documents:

   a. DLA Instruction, Records Management.


   c. The DLA Records Schedule.
Enclosure 2
Responsibilities

1. The Acquisition Operations Division (J-72):
   a. Reviews, coordinates, possibly sponsors, and monitors PLFA initiatives that meet established thresholds for Integrated Acquisition Review Board (IARB).
   b. Designates a point of contact (POC) to provide liaison support to DLA Logistics Operations and Readiness (J-3/4) and PLFAs’ Initiative Managers (IM).
   c. Is the office of primary responsibility for review of all DLA supply and services acquisitions.
   d. Is the office of primary responsibility for the IARB process.
   e. Coordinates the BCAs that will be reviewed by the IARB with J-3/4 and subject matter experts.
   f. Incorporates comments and corrections, forwards revised BCAs to the IARB, and schedules the IARB.

2. Other HQ DLA Offices review and coordinate on BCAs, when required.

3. PLFA Commanders:
   a. Approve BCAs that originate at their PLFAs. Review, coordinate, and monitor initiatives.
   b. Designate a permanent BCA POC to provide liaison support between HQ DLA and the PLFA for all BCAs. This POC ensures that policy and guidance and any additional information are disseminated to personnel within the PLFA. The POC reviews PLFA BCAs prior to submission to HQ DLA. The POC is in addition to the IMs, who are assigned to specific initiatives.
   c. Ensure that funding is included in the PLFA's Program Budget Review (PBR) at the proper point in the PBR process.
   d. Are responsible for generating BCAs and for maintaining documentation on all BCAs generated by their activity.
   e. Are the final approving authorities for certain supply and service acquisition initiatives and supporting BCAs in accordance with enclosure 1, paragraph 2, and DLAD 7.104-90.
4. The Integrated Acquisition Review Board (IARB) reviews and approves acquisitions and supporting BCAs, in accordance with enclosure 1, paragraph 2, and DLAD 7.104-90 and 37.590-4.
Enclosure 3
Procedures

1. Select an IM.

2. If IM determines a BCA is required for the proposed acquisition, see enclosure 1, paragraph 1 or 2, or, if it is exempt from the BCA requirement, see enclosure 1, paragraph 3.

3. If a BCA is required, proceed as follows:

   a. Develop a BCA I: The IM leads a study to evaluate the problem and develop alternative solutions, via a BCA I, using the guidance and template at the Acquisition Business Case Analysis Template and Guidance (see enclosure 4, attachment 1). The BCA I must be completed and approved before Milestone A Approval is granted.

   b. IM Briefs Chain of Command: The IM briefs and receives approval through his/her chain of command.

      (1) PLFA Acquisition Initiative approval, in accordance with thresholds in enclosure 1, paragraph 2, and DLAD 7.104-90.

      (2) If required by enclosure 1, paragraph 2, and DLAD 7.104-90, submit to the Acquisition Operations Division, J-72.

         (a) J-72 submits to the Materiel Policy, Process, and Assessment Directorate of J-33 and other appropriate offices for review and comment. Comments must be returned within 10 calendar days.

         (b) The Materiel Policy, Process, and Assessment Directorate of J-33 evaluates the BCA and provides comments and needed changes to the IM and J-72.

         (c) J-72 collects and evaluates other HQ office comments and provides these to the IM, as appropriate.

         (d) IM revises the BCA, as appropriate, and briefs the IARB.

   c. Decision Made on BCA: If approved, the IM would proceed with the acquisition and begin the development of the BCA II.

   d. Update of BCA I: The IM updates the BCA I for comparison of baseline costs with the offeror proposals (which is received in the beginning of the contract award process).

   e. IM Briefs Chain of Command: The IM briefs and receives approval through his/her chain of command.
(1) FA Acquisition Initiative approval, in accordance with thresholds in enclosure 1, paragraph 2, and DLAD 7.104-90.

(2) FA Acquisition Initiative, in accordance with Section 4.4.2. and DLAD 7.104-90 for J-7, approval.

(3) If required by enclosure 1, paragraph 2, and DLAD 7.104-90, submit to the Acquisition Operations Division, J-72.

   (a) J-72 submits to Materiel Policy, Process, and Assessment Directorate of J-33 and other appropriate offices for review and comment. Comments must be returned within 10 calendar days.

   (b) The Materiel Policy, Process, and Assessment Directorate of J-33 evaluates the BCA and provides comments and needed changes to the IM and J-72.

   (c) J-72 collects and evaluates other HQ office comments, and provides these to the IM, as appropriate.

   (d) IM revises the BCA, as appropriate, and briefs the IARB.

f. Decision Made on BCA: If approved, the acquisition proceeds, in accordance with the IARB review decision.

   g. Implementation and Tracking: The IM tracks the implementation of the initiative against time, cost, scope, and performance/quality measures, included in the BCA, and sends a quarterly, one-page report to the Materiel Policy, Process, and Assessment Directorate of J-33. Following implementation, the IM ensures that the goals, objectives, and performance criteria identified in the BCA are met.
Enclosure 4

Additional Information

1. Acquisition Business Case Analysis Template and Guidance: Attachment 1

2. Spreadsheets: Use PBR spreadsheets for your activity.

3. For supply acquisitions, Vendor Stock Retention Model (VSRM) with the associated BAT located on the DLA Operations Research and Resources Analysis (DORRA) ftp site. The POC is Mr. Walter Calvin, DSN 695-3510.

4. Glossary: Attachment 2
Attachment 1

Acquisition Business Case Analysis Template and Guidance

Project Title:
Date:
Point of Contact:

Initiative Category (e.g. DVD, LTC…..)

1.0. Purpose of the Initiative

Describe the current sourcing situation and the problem that needs to be resolved by the initiative. Provide an assessment of the issues associated with the current means of sourcing including, as appropriate, trend descriptions/extrapolations, analysis of conditions, identification of root causes, market research, projection of developments, people and organizations that are impacted (including customers and stakeholders), questionnaires from customers, information from Customer Service Representatives, audit findings, modeling, data arrays, or other means of describing or displaying the problem. Identify the DoD and DLA performance measures or goals that relate to the current process or situation and discuss the ones that are not being met. If there are no established measures, explain why there is a perceived need to improve performance. Use information that is available to describe the problem; generate new data when it is cost effective.

2.0. Goals and Objectives

Analyze the problems related to the sourcing and discuss what needs to be changed to resolve them. State the goals, objectives, and desired outcomes or outputs of the alternatives and address the consequences of not pursuing the initiative. Define and quantify the goals and objectives as clearly as possible as these goals and objectives will be used as your selection criteria for choosing the most appropriate alternative. State, as appropriate, how these improvements align with Defense Planning Guidance, DoD Strategic Plan, DLA Strategic Goals and Objectives, DLA Balanced Scorecard, and DLA Business Plans (https://today.dla.mil/dss/dss-p/).

3.0. Assumptions

Discuss the assumptions made when describing the problem with the current sourcing method (include such considerations as workload, demand, etc.) as well as all assumptions made regarding the stated alternatives. Since analysis deals with costs and benefits occurring in the future, assumptions must be made to account for the uncertainties. Sunk costs and realized benefits should be discussed in the assumptions. Include a judgment whether assumptions are strong or weak. State if any data has been extrapolated or estimated. Document the sources of the data.

4.0. Requirements and Constraints
Discuss the requirements and constraints of the analysis. These should include time, cost, quality/performance, legal/legislative, internal review, ethical, political, technical, social, institutional, economic, environmental, or other requirements or constraints. Include any requirements or constraints related to the consideration of small businesses.

5.0. Description of Alternatives

Identify and describe feasible alternatives to the current sourcing method and include any assumptions specific to each alternative. A pre-proposal conference may be appropriate to obtain industry input, improvements, and new or alternative approaches to acquiring the requirement. Describe the status quo as the first alternative. Provide a detailed description of each alternative’s scope, cost, quality/performance expectations, a schedule for implementation, and the expected timeframe for achieving identified goals and objectives. A brief discussion of each alternative is adequate, but the discussion should be detailed enough to serve as a foundation for a contractual arrangement.

5.1 Scope

Describe the alternative in terms of what it is intended to accomplish and what it will not accomplish. For uncertain outcomes/outputs, show the expected variance if possible and estimate the probability of occurrence. Uncertainty may be discussed quantitatively or can use relative measures to describe the probability of occurrence such as “high, medium, low”.

5.2 Cost

Costs include all expenditures required to maintain the current sourcing method as well as the costs associated with implementing each alternative (e.g. functional activity costs, operations costs, transportation costs, etc.). For a Type I BCA, an estimate of the potential savings is included; for a Type II BCA, the cost/price proposal information is analyzed and compared with the status quo support costs to determine the most efficient and effective support.

Identify the life cycle cost of the initiative by fiscal year, including any disposal requirements and costs of risk mitigation. Include the cost of any existing assets that are used since there is an opportunity cost involved. Identify the sources of your data. Relate the data across alternatives as closely as possible. Identify any unavoidable differences between data comparison, such as one alternative using actual costs over a year and another showing actual costs over a period of months that are then extrapolated over the same time period.

Consider the timing of the costs and benefits. Timing relates costs and benefits over the life cycle of alternatives to allow systematic comparison of Benefit/Cost Ratios (BCRs) or Return-on-Investments (ROIs) among alternatives in compliance with the discount rates required in OMB Circular A-94. Average annual cost may be identified for steady recurring operational cost once the initiative has been implemented or for initiatives that involve minimal up front costs.

Impacts outside DLA may not be quantifiable, but at a minimum they should be discussed. Identify separately impacts that occur outside DLA (Services, other agencies, states, foreign governments, non-governmental entities, etc.).

5.3 Schedule

Provide a milestone chart, such as a Plan of Action and Milestones (POA&M), or a Gantt chart, that shows start and completion dates, the timeframe for each stage in the life cycle of the sourcing decision, and other important events required to complete the alternative and their dates. After the initiative is implemented, state at what point in time each initiative objective will be achieved. The timeline needs to be in enough detail to serve as a baseline against which implementation and achievement of initiative objectives can be compared.
5.4 Quality/Performance Capabilities

Describe the key features of the initiative in terms of quality and performance. Performance characteristics generally relate to improved organizational productivity and/or value added events enabled by the chosen alternative (such as improved inventory, or higher production of the organization’s primary output, reduced logistics response time for requisitions, etc.). The capabilities should also be stated as metrics against which the implemented initiative can be compared.

6.0. Advantages and Disadvantages of Each Alternative

The advantages and disadvantages associated with each alternative under consideration should be quantified whenever possible so they may be included in cost benefit calculations. When quantification is not possible, the BCA should still attempt to document significant qualitative advantages and disadvantages. Qualitative advantages or disadvantages should be discussed in narrative format.

- Discuss the impacts of each alternative on the Supply Chain Management system and how well each alternative can be incorporated into the larger system of the supply chain. Document the logistical benefits (e.g. reduced administrative lead time, reduced production lead time; reduced inventory; reduced customer wait time; increased supply availability; improved readiness; added contractor services such as forecasting, inventory management, quality; reduced manual purchase requests (PRs), configuration control management, distribution, and transportation services specific to the acquisition.

- Inventory Control Points – Specify the impact to other ICP operations and resources. Examples of operations impact are supply availability weapon system readiness, backorders, purchase request pipeline, customer wait time, and long-term contracts. Examples of resource implications are increase/decrease in sales and cost.

- Depot Operations – Specify the impact to depot operations including inventory levels, distribution processes, and infrastructure requirements. Include impacts to workload projections such as receipt processing, wholesale returns, high price materiel release orders (MROs), routine MROs, stock location, inventory accuracy, materiel denials, space utilization, transportation, etc.

- Discuss customer input used in establishing initiative requirements and functions. Specify impact to customers’ current operations (e.g., reduction in inventory at the customer level, reduced logistics response time, etc.). Discuss the impact of each alternative on clienteles/stakeholders and their preferences.

- Discuss any problems or benefits related to surge and sustainment requirements.

- Describe difficulties with changing/adjusting the initiative in the future as the situation changes. Can the alternative be modified to adjust to a changing situation? What is its upgrade/downgrade capability?

- Identify the type and extent of any disruptions that the alternative would cause.

- Discuss any political, social, economic, ethical, and legal/legislative issues, including compliance of the alternative with public policy and legislation and requirements for Congressional notification or review. Issues might include such things as impacts on foreign nationals, Status of Forces Agreements, small business, and A-76, etc. Use
weighting factors if appropriate and provide an explanation/ justification for the
weights assigned.

7.0 Risk Assessment

Perform an assessment of the risk involved for each alternative.

- **Risk Identification** - Identify the risks that might occur with each sourcing alternative
  that could keep DLA from achieving the initiative’s objectives. For example, several
  types of risks that might occur include a new process improvement not performed
  traditionally, safety, health, labor, loss, technical (including obsolescence), interface
  points, hand-offs of responsibility, cross-functional involvement, social, political,
  business, legal, environmental, etc.

- **Risk Analysis** - Identify the impact that the risk is likely to have on resolving the
  problem or issue. Discuss the cause of the risk. Assess the magnitude of the impact
  of the risk on the initiative in terms of additional time/schedule, cost, performance/quality. Assess the probability of the risk occurring.

- **Risk Management Strategies** Develop risk management strategies. There are four
  possible strategies for risk management:
   - Risk assumption (accept risk).
   - Risk avoidance (don’t accept the alternative because it contains too much
     risk, or eliminate the risk).
   - Risk control (institute risk mitigation measures such as incorporating into the
     contract incentive/award fee or disincentive elements; selecting a specific
     type of contract including firm fixed price, fixed price incentive, fixed price
     with economic price adjustment; or other mitigation measures either before
     the risk occurs or by developing and implementing contingency plans if the
     risk materializes).
   - Risk transfer (transfer or share the risk by using such vehicles as insurance,
     warranties, contractual agreements where the contractor assumes the risk,
     or other arrangements).

State whether the risk and its consequences will be accepted, whether the risk will be avoided by
not accepting the alternative or eliminating the risk, or whether the risk can be controlled or
transferred. Identify risk control (including level of management control that will be exercised to
oversee the entire acquisition process) and risk transfer strategies, the probable effectiveness of
each, the cost, people, and additional time needed for risk mitigation, and any other
considerations or requirements for managing or transferring the risk.

**Risk Analysis for a BCA**

For each alternative, identify the potential for risk using the following spreadsheet to show
the type of risk, whether the adverse impact of the risk on the initiative is high (3),
medium (2), or low (1) if it occurs; whether the likelihood of risk is high (3), medium, (2),
or low (1); the significance of the type of risk for potential adverse impacts (multiply
impact by likelihood of occurrence), the likelihood of success (high, medium or low); and
the cost of the risk reduction measure(s):

**Alternative 1**
<table>
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<tr>
<th>Type of Risk</th>
<th>Impact (adverse impact of risk on initiative if it occurs (high (3), medium (2), low (1)))</th>
<th>Likelihood of Occurrence (high (3), medium (2), low (1))</th>
<th>Significance (impact x likelihood of occurrence)</th>
<th>Likelihood of Success of Risk Reduction Measure (high (3), medium (2), low (1))</th>
<th>Cost of Risk Reduction</th>
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### 8.0. Comparison of Alternatives

Compare the quantitative and qualitative costs and benefits identified in 6.0 Advantages and Disadvantages of Each Alternative above against the selection criteria identified in 1.0 Purpose of the Initiative and 2.0 Goals and Objectives above. Where possible, determine the probability distributions of benefits, costs, and net costs or benefits. Identify any screens or filters used in the analysis (eliminating alternatives due to cost, time needed for implementation, etc.). Discuss any limitations/qualifications in the analysis.

A sensitivity analysis should be performed on feasible alternatives to determine how much other alternatives must change in certain key areas or variables to be preferred over the best alternative. Sensitivity analysis should always be performed when 1) the results of the analysis do not clearly favor any one alternative, and 2) there is uncertainty about an assumption that can impact the estimate of costs and benefits.

Identify the factors that have been determined to warrant sensitivity analysis, and describe the approach and assumptions used for conducting the sensitivity analysis. Uncertainties should be accounted for in the analysis by testing the sensitivity of the analysis results using various factors. Any limitations of the analysis due to uncertainty or bias regarding the data should be identified and discussed. Examples of factors to consider are:

1. The effects of alternative assumptions on:
   - Program objective
   - Requirements
   - Operations
   - Discount rate
   - Inflation
   - Residual value

2. The effects of a shorter or longer economic life.

3. Changes in the magnitude and timing of cost or benefits.

A matrix may be used to provide a display for comparing results; preferences may be ordered (such as high, medium, or low), rank ordered (1-5), or other means of ordering when quantitative factors are not available for ranking.

### 9.0. Recommendation

Recommend the alternative that maximizes net benefits and is the best overall value to DLA and the customer. Discuss how well the selected sourcing alternative will solve the problems or issues identified and risks and trade-offs. Summarize the costs, savings, impact to current/future staffing...
levels, impact to the customer, and the effect on other DLA activities that the alternative will have if the initiative is implemented.

10.0. Verification

Describe the metrics that will be used to measure the implementation progress of the initiative (cost, schedule, performance, scope changes) and the metrics that will be used to measure the success of the initiative in meeting the goals and objectives stated in the selection criteria. Ensure the use of measurable performance and supply chain effectiveness standards. Examples include, but are not limited to: quality, fill rate, back orders, logistics response time, contractor processing time, customer wait time, and customer satisfaction. When establishing metrics, ensure that metrics can be directly linked to the performance incentives. Provide the organization responsible for verification.

11.0 SUBMITTING ORGANIZATION AND APPROVAL CHAIN

Submitting Organization

- Point of Contact:
- Organization:
- Phone:
- E-Mail:

Command Level Approval from Submitting Organization

- Comments:
- Concur/Non-concur:
- Organization:
- Signature:

HQ DLA Executive Director Approval (DSS, J-1, J-3, J-6, J-8)

- Comments:
- Concur/Non-concur:
- Organization:
- Signature:
Attachment 2

Glossary

Alternatives - The different courses of action, means, or methods by which objectives can be attained. The preferred alternative is the one that provides the best value.

Analogy – The examination of how similar problems were resolved in the past to identify alternatives for current problems.

Analogy Cost Estimating Technique – Estimation of costs and benefits based on direct comparison with historical information of similar existing activities, systems, or components. This technique subjectively compares the new system with one or more existing similar systems for which there are accurate cost and technical data.

Annual Net Benefits – Yearly benefits minus yearly costs.

Assumptions - Explicit statements used to describe the present and future environment upon which the analysis is based. Assumptions are made to support and reasonably limit the scope of a study. Assumptions about the future account for uncertainties.

Base Year – The year to which all costs and benefits are discounted.

Benefits – Improved outputs or outcomes of a system (e.g., number of units produced, value of service provided, etc.).

Benefit/Cost Analysis – A systematic method comparing quantitative and qualitative benefits and costs of various alternative courses of action to determine the preferred alternative having the best value. (OMB Circular A-94).

Benefit-Cost Ratio – The ratio of discounted benefits to discounted costs. The alternative with the highest benefit-cost ratio does not necessarily have the highest net present value. This measure can lead to poor choices since additional cost could lead to substantially greater net benefits and qualitative benefits are not necessarily captured; therefore, alternative initiatives that "maximize net benefits" should also be considered as options even if the Benefit Cost Ratio does not show that those initiatives are preferred. Care should be taken not to double count cost savings and avoidances as benefits.

Break Even Analysis – Discovering which values for one or more important variables cause the net present value to change from negative to positive (no-go changes to go or cause decision makers to be indifferent as to which of two alternatives is chosen. This helps to focus on whether the values assigned to those variables are acceptable.

Business Case Analysis (BCA) - A comparative analysis that presents facts and supporting details among competing business alternatives. Documents and identifies functional alternatives and presents economical and technical arguments for carrying out alternatives over the life cycle to achieve stated business objectives or imperatives. To be effective as a management tool, a business case must never begin with any predetermined notions of the outcome or predetermined technological solution.

Confidence Level – Often referred to as a significance level, answers the question how likely we are to be wrong in our estimates: 1 out 100 times, 5 out of 100 times, 10 out of 100?, etc.

Costs - Costs are resource inputs to achieve a mission or program. Various cost estimating techniques and contacts can be found on the DoD Cost Estimation Web Home Page: (http://www.dtic.dla.mil/adm).
Cost Effectiveness Analysis – A tool for finding the alternative that accomplishes the specified goal at the lowest cost. Differs from cost-benefit analysis, which may be used to compare alternatives that have very different goals. See OMB Circular A-94 for additional guidance.

Cost Savings or Cost Avoidances - Result when resources which would have been consumed under existing operations are not consumed due to the alternative course of action

Direct Costs – Resources that must be committed to implement the initiative. This includes one time fixed costs, and operation and maintenance costs.

Discount Rate – The rate estimated to approximate the time preference for money of the decision-making unit. Or the rate at which a benefit declines in value if the decision making body cannot have it now, but must postpone receiving it. The rate used in calculating the present value of expected yearly benefits and costs is updated annually in OMB Circular A-94, Appendix C, (http://www.whitehouse.gov/WH/EOP/omb).

In order to compute net present value, it is necessary to discount future benefits and costs. This discounting reflects the time value of money. All future benefits and costs, including non-monetized benefits and costs, should be discounted. The higher the discount rate, the lower is the present value of future cash flows. For typical investments, with costs concentrated in early periods and benefits following in later periods, raising the discount rate tends to reduce the net present value.

The “real” (constant dollar) rate is used for most DLA analyses. A nominal rate is provided, which accounts for both interest and inflation, but is generally not appropriate for internal DoD investments. The “real” discount rate considers only the cost of money (interest rate), and not the added effects of inflation. The “nominal” rate, which includes the cost of inflation along with the cost of money, is not normally used except in certain cases where the investment alternative includes leases or rentals which have inflation “built in” to out-year rates. In these cases it is necessary to use “nominal” rates for consistent comparison of purchase investments.

Expected Value – Probability multiplied by the value of the outcome.

Extrapolative Forecasting – A method of prediction that assumes that the patterns that existed in the past will continue into the future, and that those patterns are regular and can be measured.

Externality – An effect, consequence or phenomenon of an initiative, that can be positive or negative, that has a cost or benefit.

Fixed Costs – Those costs that do not vary with the level of output.

HQ Sponsor – A person selected from any one of the HQ offices who will work with the Initiative Manager as he/she prepares the BCA. The HQ Sponsor recommends tools that the Initiative Manager might use, recommends points of contact in various offices who may be able to provide assistance, and in other ways assists the Initiative Manager as s/he works on developing a BCA.

Indirect costs – The costs associated with impacts or consequences of an initiative.

Indirect Impact – An effect of an initiative that is not associated with one of its stated objectives.

Industrial Engineering Cost Estimating Technique – A “bottom-up” method of cost analysis that is the most detailed of all the techniques and the most costly to implement. Estimating by this engineering method requires the analyst to have an extensive knowledge of the system characteristics (the system, the production processes, and the production organization).
Information Technology Initiation/Solution – Can be characterized as the use of hardware and/or software, and often includes networking and telecommunications, to manage and/or process information.

Initiative Manager (IM) – Action officer responsible for the development and implementation of the initiative. The Initiative Manager is the primary point of contact responsible for an initiative. As such s/he is responsible for the identification of all funding requirements as well as the implementation of the initiative. An Initiative Manager can be located at either HQ or an FA and is required to periodically provide J-38 with updated status of their initiatives.

Integrated Acquisition Review Board (I-ARB) – The I-ARB is the decision authority to continue the acquisition, modify the strategy, terminate the process, or determine how to proceed into the next phase of the acquisition. The Board convenes for the purpose of approving acquisitions and the supporting BCA at specified milestone decision points, and at other times as necessary.

Lead Time – The period from the start year to the time that an alternative begins to produce benefits.

Life Cycle Cost (LCC) - The overall estimated cost for a particular program alternative over the time period corresponding to the life of the program, including direct and indirect initial costs plus any periodic or continuing cost of operation and maintenance. (OMB Circular A-94). The total Present Value cost of a program over its expected life.

Materiel Acquisition Initiatives - Are defined as “shift to commercial practices” initiatives in support of

1. Performance Based Logistics (PBL) support which may include long term contracts, prime vendor, virtual prime vendor, and corporate contracts.
2. Contracts with DVD Arrangements

Net Present Value – The discounted benefits of an initiative less its discounted costs. See OMB Circular A-94 for additional guidance.

Objectives – More focused and concretely worded statements than goals. Objectives also deal with end states, most usually with a specified time dimension.

Operationalize – To make more specific for the sake of consistency. An operational definition should be sufficiently precise so that all persons using it will achieve the same result.

Opportunity Costs – The resources diverted from other uses to make a given initiative possible. These include those resources that can be expressed in dollars, nonmonetizable but tangible costs, and intangible costs. Defined in OMB Circular A-94 as the maximum worth of a good or input among possible alternative uses.

Other Business Initiatives – Business initiatives that are not acquisition or information technology initiatives. This is a broad category that can include such things as business process reengineering.

Parametric Cost Estimating Technique – The cost is based on physical attributes or performance characteristics and their relationships to highly aggregated component costs. A parameter is a definable characteristic of one of the parts that can be added to give an expression of the value of the whole system, device, or item. The results of a parametric estimate depend on the ability of the analyst to establish valid relationships among the attributes of elements that make up the alternative and its costs.

Performance Based Logistics (PBL) Acquisition - Acquisitions of material and/or logistics support (such as inventory management, storage, materiel handling, and transportation)customer
direct or DLA direct)) where contractor performance is evaluated based on measurable outcomes to ensure improved readiness, availability, or reduced overall costs to the customer and DLA. PBL acquisitions may include long term contracts, prime vendor contracts, virtual prime vendor contracts, direct vendor delivery, and corporate contracts.

**Political Viability** – A criterion for evaluating alternatives. Measures whether the alternative is acceptable or can be made acceptable to relevant groups.

**Present Value (PV)** - The current value of discounted future dollars using a specified value for the interest rate or cost of money as prescribed in OMB Circular A-94.

**Qualitative Analysis** - Analysis that provides non-numerical assessments or assessments of intangibles. This type of analysis typically relies on narrative format to convey meaning. Qualitative analysis can use relative terms (high, medium, low; greater or lesser; etc.).

**Quantitative Analysis** - Analysis that provides an assessment expressed in numerical terms such as statistics or calculations.

**Real or Constant Dollars** – Economic units measured in terms of constant purchasing power. A real value is not affected by general price inflation.

**Risk Analysis** – Risk analysis refers to the probabilities of errors in the estimates or the probabilities of occurrence of events or possible outcomes. The more explicitly the risk is defined, the greater the possibility for the decision maker to safely utilize the analysis. The probability results of available choices should be described as definitively as possible. Many statistical and other tools exist so that a quantitative risk assessment can be made.

**Return-On-Investment (ROI)** - An often used ratio which allows comparison of the relative pay back for a given investment (e.g., Alternative A allows a 4-to-1 pay back versus Alternative B’s 3.5-to-1 pay back). In this form, ROI is synonymous with Benefit/Cost Ratio (BCR) where productivity benefits plus saving/cost avoidances occur.

- For the BCR, the ratio is computed as the Benefits plus Cost Savings/Cost Avoidances divided by Investment Costs. Benefits are computed for functional mission productivity improvements resulting from the overall change in business operational efficiencies enabled by initiatives such as AIS development, training, business process reengineering, etc. Multi-year programs are normalized to the Present Value of the multiple year benefits, savings, and investments using the appropriate OMB discount rate. Usually, the OMB “real” or constant dollar rate is used.
- As an absolute number, the ROI is the benefits/cost savings minus the investment costs. Multi-year programs are normalized to the Present Value of the multiple year benefits, savings, and investments using the appropriate OMB discount rate.

**Sensitivity Analysis** – A process used to discover which assumptions are critical (or sensitive) to the analysis. This is done by testing a number of plausible values for each important variable. Critical sensitivities are those that, when varied, change the nature of the recommendation. Sensitivity analyses should be performed if results of the BCA do not clearly favor any one alternative, or there is uncertainty about an assumption that can impact the estimate of costs and benefits.

**Sunk Costs** – Resources that have already been spent before the decision on the new initiative is considered. These can be ignored in computing the cost of the initiative, as they have already been spent and there is no way to take them back.

**Tangible Costs or Benefits** – Costs or benefits that can be measured in some type of recognized unit. These may or may not be monetarizable.
Total Ownership Costs – Is the sum of all financial resources necessary to organize, equip, train, sustain and operate military forces sufficient to meet national goals in compliance with all laws, all policies applicable to DoD and its components. TOC is comprised of cost to research, develop, acquire, own, operate, and dispose of weapon and support systems, other equipment and real property, the costs to recruit, train, retain, separate and otherwise support military and civilian personnel, and other cost of business operations in DoD.

Technical Feasibility – A criterion for evaluating alternatives. Measures whether the alternative will actually produce the desired result – meeting the major objectives.

Uncertainty – Estimates of benefits and costs are typically uncertain because of imprecision in both underlying data and modeling assumptions. Because such uncertainty is basic to many analyses, analyses should attempt to characterize the sources and nature of the uncertainty, and its effects should be analyzed and reported. Useful information would include the key sources of uncertainty; expected value estimates of outcomes; the sensitivity of results to important sources of uncertainty; and, where possible, the probability distributions of benefits, costs, and net benefits. Ideally, probability distributions of potential benefits, costs, and net benefits should be presented. The basis for the probability distribution assumptions should be reported. Any limitations of the analysis because of uncertainty or biases surrounding data or assumptions should be discussed. (OMB Circular A-94)

Variable costs – Costs that vary with the level of output.