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IN REPLY  
REFER TO J-33

APR 12 2001

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE  
(ACQUISITION REFORM)

THROUGH: ACTING DEPUTY UNDER SECRETARY OF DEFENSE  
(LOGISTICS AND MATERIEL READINESS)

SUBJECT: DLA Commercial Implementation Plan

This responds to the tasking in USD(AT&L) memorandum dated January 5, 2001. Attached is an implementation plan outlining our methodology for meeting the FY 05 goals for use of FAR Part 12, Acquisition of Commercial Items. This plan is intended to demonstrate our ongoing commitment to the increased use of commercial acquisition procedures, consistent with the Department's emphasis.

The DLA point of contact for this subject is Ms. Anne Burleigh at (703) 767-1358.

HENRY T. GLISSON  
Lieutenant *General*, USA  
Director

Attachment

## DLA COMMERCIAL ITEM IMPLEMENTATION PLAN

### TASKING:

To meet goals for increased use of FAR Part 12, Acquisition of Commercial Items, in USD(AT&L) memorandum dated January 5, 2001, Subject: Commercial Acquisitions

### GOALS:

#### **For contract actions valued greater than \$25,000:**

1. Double the dollar value of FAR Part 12 contract actions awarded in FY 99 by the end of FY 05. The FY 99 baseline is \$4 billion.
2. Increase the number of FAR Part 12 contract actions awarded to 50 percent of all DLA contract actions awarded by the end of FY 05. The FY 99 baseline is 26 percent.

#### **For contract actions valued at \$25,000 or less:**

1. Same as above. The FY 99 baseline is estimated to be \$330 million.
2. Same as above. The FY 99 baseline is estimated to be 18 percent.

### AGENCY ACTIONS:

**Share Lessons Learned** – The Defense Logistics Agency (DLA) Senior Procurement Executive (SPE) will develop a Web page to publicize and track the DLA Commercial Implementation Plan and to facilitate the use of FAR Part 12. The Web page will include links to (1) knowledge management tools to share information on best practices, lessons learned, market research, and pricing; (2) on-line decision tools for determining commerciality and conducting market research, (3) new initiatives/regulations (e.g., forthcoming DoD Pilot Program that will authorize Performance-Based Service Acquisitions to be treated as commercial); (4) significant achievements at DLA Buying Activities and HQ DLA; and (5) other resources (training, clause matrices, etc.).

**Update Training/Guidance** – The DLA SPE will update DLA commercial training, and related courses; issue clarifying guidance on methods for conducting market research and determining commerciality, especially for large populations of items or services; and direct DLA buying activities to ensure that all acquisition team members are aware of the DoD emphasis on commercial acquisition and are properly trained.

**Establish Awards/Incentives Program** – The DLA SPE will (1) establish a DLA Awards/Incentives Program, to recognize and reward outstanding accomplishments of DLA acquisition teams and personnel related to increased application of FAR Part 12; (2) direct DLA Buying Activities to establish local award/incentive programs; and ensure that acquisition teams and individuals are nominated for recognition and reward at higher levels; and (3) identify and utilize external opportunities to recognize and reward DLA acquisition teams and personnel for accomplishments related to use of FAR Part 12.

**Investigate Barriers/Underutilization** – The DLA SPE will investigate barriers **to, or** underutilization of, commercial item coding and FAR Part **12 and** take corrective action as needed. Factors that **will** trigger investigation include: (1) Procurement Management Review (PMR) findings; (2) acquisitions where the DLA Buying Activity wants to apply FAR Part 12 and encounters obstacles; (3) inadequate progress in coding of commercial items; and (4) commercial coding errors resulting from commodity transfers.

**Management Emphasis** – The DLA SPE will (1) report the quarterly status of this initiative via a DLA information Summary (DISUM) to the Director, DLA, and a Weekly Activity Report (WAR) to J-33 personnel and DLA Buying Activities; (2) continue to assess use of Part 12 under the DLA Procurement Management Review (PMR) Program; and (3) direct DLA Buying Activities to emphasize use of FAR Part 12 in local reviews.

**Measure Progress** – The DLA SPE focal point will provide progress reports to ODUSD(AR) each quarter, identifying DLA dollars and actions awarded using Part 12; and report progress against objectives during DLA Management or Strategic Reviews. The report for contract actions valued at \$25,000 or less will be an estimate, until a cost-effective means can be developed for obtaining visibility of these awards.

#### **OVERLAPPING/CONFLICTING AGENCY OBJECTIVES:**

**To Increase Use of Procurement Automated Contract Evaluation (PACE) System** – PACE is a highly efficient automated procurement system that solicits and awards without manual intervention. **Electronic** awards made through PACE support the Agency strategic goal to **reduce** costs, improve **efficiency**, and increase **effectiveness**. The maximum threshold for PACE buys will soon be increased from \$25,000 to \$100,000. PACE does not currently include FAR Part 12. Almost all systems resources are being directed toward the DLA Business Systems Modernization (BSM) Enterprise Resource Plan (ERP), which will replace legacy systems. DLA is in the beginning stages of developing the ERP, and it is uncertain if FAR Part 12 functionality can cost-effectively be incorporated into the system that will replace PACE.

**To Increase Use of Long-Term Contracting Instruments** – To increase efficiency and better leverage its resources, DLA has established goals that encourage DLA Buying Activities to award long-term contracting instruments. These include quantity options, priced basic ordering agreements, indefinite delivery purchase orders, long-term contracts, and **long-term** agreements. Long-term contracting instruments reduce the occurrence of costly, repetitive purchase orders. However, use of long-term contracts is not always consistent with the goal to increase use of FAR Part 12. Many long-term contracts are currently in **place** that were not awarded using **FAR Part 12, and** many of these will **not** expire for several years. (As *long-term* contracts do expire, DLA buying activities have been directed to replace them with FAR Part 12 long-term contracts whenever possible.) In addition, long-term contracts generally involve a mixture of commercial and noncommercial items, which was thought to make them ineligible for acquisition using FAR Part 12. (DLA is currently reviewing the regulatory constraints to determine if exceptions can be developed to this policy.)

**To Increase Use of Strategic Supplier Alliances** – Strategic Supplier Alliances are used with key Defense suppliers. Major elements include (1) design of model contracting processes, (2) development of standard pricing methods, (3) installation of quality assurance/continuous improvement practices that emphasize partnering with the supplier, and (4) ongoing communication and education. Strategic Supplier Alliances are not always awarded using FAR Part 12. The categories of items identified in the DLA Strategic Alliance contracts were based on factors other than commerciality (i.e., catalog, replenishment, and build-to-order). It was not appropriate to apply FAR Part 12 to the requirement in its entirety, although certain Part 12 terms were negotiated into the contract.

#### **SIGNIFICANT AGENCY ACCOMPLISHMENTS:**

**Selected a Commercial Off-The-Shelf (COTS) Solution for DLA Business Systems Modernization** – BSM is a major program under which DLA will develop improved Agency business processes and an ERP systems environment to support them. DLA legacy systems will be replaced. For this top-priority Agency initiative, DLA sought and achieved a COTS solution. The BSM contract was a FAR Part 12 buy, using FAR Subpart 8.4 procedures (GSA schedules). The dollar value of the contract over the 5-year period is \$389 million. The initial obligation was \$83 million, for the first of eleven total tasks proposed by Accenture. The acquisition strategy included use of a Performance Work Statement, maximum use of best commercial practices, extensive market research pertinent to service providers and products, performance standards and incentives, best value, and maximum use of GSA schedules. The total award amount excludes costs associated with training and additional hardware requirements that may be identified during performance. Potential obligations are expected to exceed \$500 million by contract completion.

**Strategic Sourcing/Shift to Commercial Practices** – Strategic Sourcing is a major initiative that supports the DLA Strategic Framework. DLA is aggressively pursuing an integrated process that relies on multiple sourcing solutions. The Agency has made significant progress in shifting to commercial practices (e.g., electronic awards, long-term contracting). For commodities where DLA shares similar requirements with the commercial sector, use of these commercial business practices has become the norm. DLA is now focusing on the hardware area, with its large composition of unique spare parts. Candidate items have been identified (7 percent of items that generate 73 percent of sales). The smaller population is under review to determine if there are characteristics that show trending towards commercially available parts. Research results will be used across the entire population of DLA-managed hardware items. The FY 05 goal is to increase DLA hardware sales using commercial business practices to 50 percent.

**Identifying Systems Functionality to Facilitate Use of FAR Part 12** – DLA is identifying improvements that could be made to current systems capabilities to better support the use of Part 12. To the extent possible, this functionality will be incorporated into the new BSM ERP environment that will replace DLA legacy systems. For example, the new systems could facilitate Part 12 use by providing “on-line decision tools” for conducting market research and determining commerciality. The new systems could also support use of Part 12 by including

functional capability to issue a combined synopsis/solicitation (see FAR 12.603). This procedure reduces procurement administrative lead time by eliminating the time that would otherwise be required between issuance of the synopsis notice and issuance of the solicitation. It is currently difficult for buyers to take advantage of this authority, because much of the synopsis notice information must be keyed in manually.

**Providing Support to DLA Buying Activities** – DLA supports the efforts of its Buying Activities to apply FAR Part 12, especially to major acquisition programs. DLA provides direct assistance to program managers, contracting officers, technicians, and other personnel concerning market research methodologies, commerciality determinations, application and tailoring of clauses, and other issues related to use of FAR Part 12.

**Successfully Implemented Performance-Based Services Acquisition (PBSA) Policy** – USD(AT&L) memorandum dated April 5, 2000 emphasized the benefits of performance-based acquisition strategies for services. The memo established a goal requiring 50 percent of service acquisitions to be performance-based by FY 05, and tasked the Services and DLA to develop an implementation plan. Performance Management Review findings have shown that DLA is well on its way to meeting the Department's goal. When Section 821(b) of the FY 01 Defense Authorization Act is implemented, DoD will be permitted to treat performance-based service contracts and task orders as commercial when certain conditions are met. DLA progress in using performance-based service contracting will support our efforts to reach DoD commercial acquisition goals.

#### **Developed Groundbreaking Methodologies for Identifying Commercial Items** –

**Mass Coding** – DLA has always recognized that resources are not available to make significant progress in identifying commercial items by conducting individual technical reviews. In 1996, DLA issued guidance to accelerate the pace at which items and services could be identified as commercial. The guidance promotes the identification of logical groupings of items or services that can reasonably be presumed to be commercial or noncommercial and the mass coding of those groups in automated systems without conducting individual technical reviews. DLA buying activities have accomplished this mass coding. DLA is continuing to refine this policy and follow up in areas where additional mass coding appears feasible. The DLA guidance on mass coding was adopted for inclusion in the forthcoming DUSD(AR) Commercial Item Handbook.

**Commercial Probability Computer Model** – Section 803 of the FY 99 Defense Appropriations Act required DoD to conduct a Commercial Price Trend Analysis of commercial items that are exempt from requirements to submit certified cost or pricing data. In response to this tasking, the DLA Office of Operations Research and Resource Analysis and the DLA Procurement Integrity and Pricing Division adapted a computer model to identify DLA items with a >90 percent probability of being commercial. The commercial item predictive model was developed from a computer model originally designed to identify on-demand manufacturing (ODM) items. This methodology was included in the March 2000 report to Congress required by Section 803. The model is an imprecise measure and must be complemented with additional market research methods. It requires some refinement in its

design to address changeable results. However, it is a viable tool for predicting commerciality of large populations of items, when appropriately applied. Use of the computer model will be addressed in our forthcoming guidance.

**Guidance to Facilitate Determinations of Commerciality on a Group Basis** -The FAR generally presumes that items or services will be bought one at a time. Regulations do not address how to conduct market research or determine commerciality for large populations of items or services being acquired under a single requirement. DLA views this as a significant weakness and sees a need to address the way it is increasingly doing business. Our forthcoming guidance will describe how mass coding, sampling, and the computer model can be used when it is impracticable to conduct individual reviews, such as when adequate resources are not available or when a large number of items or services will be included on a solicitation.

**Pursuing Application of FAR Part 12 to Hybrid Requirements** - DLA is increasingly using long-term contracting instruments to acquire large populations of items or services under a single requirement. Generally, these large requirements involve a mixture of commercial and noncommercial items, and it was thought that the noncommercial portion of the requirement made the entire acquisition ineligible for FAR Part 12. However, DLA is finding this to be a significant barrier for some major acquisition programs where buying activities want to use Part 12. DLA has reviewed GAO case law concerning factors to consider in deciding if a contract is for supplies or services, when components of both are contained in the same contract. DLA is considering whether similar factors could be used to assess the commerciality of a hybrid requirement (i.e., if the principal purpose of the acquisition is to acquire commercial items, and the relative dollar value of the commercial portion versus the noncommercial portion would reasonably support an agency determination that the acquisition was for commercial items). DLA hopes to develop a precedent-setting position on this issue and issue clarifying guidance to its buying activities.

#### **ACHIEVABILITY OF GOALS:**

##### **FAR PART 12 CONTRACT ACTIONS VALUED GREATER THAN \$25,000:**

**Dollar Value** -In FY 99, Part 12 awards represented 52 percent of dollars (\$4 billion out of \$7.8 billion) for contract actions valued greater than \$25,000. In FY 00, Part 12 awards represented 56.7 percent of dollars (\$5.5 billion out of \$9.78 billion) - an increase of 4.7 percent. To meet the DoD goal, Part 12 dollars must increase to \$8 billion by FY 05. DLA analysis indicates this goal is potentially achievable. However, the DLA figures are estimates, and actual outcomes could deviate substantially.

The FY 05 Forecast of Material Obligations for Defense Energy Support Center, (DESC), Defense Support Center Philadelphia (DSCP), Defense Supply Center Richmond (DSCR), and Defense Supply Center Columbus (DSCC) is \$11.7 billion. This represents total contract dollars. Separate figures are not available for contract actions valued greater than \$25,000. Projected Service Costs are available through FY 03. This figure is \$2.3 billion, which also represents total contract dollars. For those buying activities not reflected in the Forecast of

Material Obligations and Projected Service Costs, DLA estimates an additional \$1 billion in total contract obligations in FY 05. If these projections hold and if the percentage of dollars awarded using Part 12 remains at 56.7 percent, DLA could expect total contract dollars awarded for Part 12 contract actions to reach \$8.5 billion in FY 05. If the percentage of Part 12 dollars continues to increase by 4.7 percent per year, then this figure could reach \$12 billion. In FY 99 and FY 00, the percentage of dollars awarded for contracts valued greater than \$25,000 was approximately 75 percent of total contract dollars. If this relationship remains constant, DLA could feasibly achieve \$9 billion in obligations for Part 12 contract actions valued greater than \$25,000 in FY 05.

**Number of Contract Actions** -- In FY 99, Part 12 awards represented 26 percent of contract actions (10,593 out of 40,742) for contract actions valued greater than \$25,000. In FY 00, Part 12 awards represented 37.5 percent of contract actions (16,958 out of 45,222). A significant portion of contract actions at this dollar value will be awarded under the PACE system after the maximum threshold increases from \$25,000 to \$100,000. PACE does not include FAR Part 12. DLA expects to see increases in the number of Part 12 awards. For example, long-term contracts will increasingly be awarded using Part 12. Delivery orders against long-term Part 12 contracts will increasingly replace non-Part 12 purchase orders and **delivery** orders. **However**, DLA is unlikely to meet the 50 percent goal unless the ERP functionality can cost-effectively include FAR Part 12 in the automated procurement system that replaces PACE.

#### **FAR PART 12 CONTRACT ACTIONS VALUED AT \$25,000 OR LESS:**

DLA is pursuing the development of a cost-effective means to obtain visibility of Part 12 awards valued at \$25,000 or less.

**Dollar Value** -- For contract actions valued at \$25,000 or less, DLA estimates the FY 99 baseline is \$330 million. To reach the **DoD** goal, DLA must increase this figure to \$660 million in FY 05. To develop the baseline, DLA matched National Stock Numbers (**NSNs**) that are coded commercial in the Contracting Technical Data File (CTDF) with contract awards for those **NSNs** as shown in the Active Contract File (ACF). Not all DLA buying activities use the CTDF, but those that do generated 78 percent of the contract actions valued at \$25,000 or less in FY 99. Dollars awarded using the PACE system were excluded from the baseline. (Actions awarded under PACE have an identifiable contract number and do not include FAR Part 12.) Other awards cannot be distinguished as Part 12 or non-Part 12, therefore only estimated adjustments could be made. Dollars awarded for delivery orders and blanket purchase agreement calls were reduced by 50 percent, to adjust for the unknown number of basic contracts that were not awarded using FAR Part 12. Non-delivery **order/non-**PACE awards were also reduced by 50 percent, to adjust for the unknown number of awards in this category that were made without using FAR Part 12. Consistent with the analysis for contract actions valued greater than \$25,000, if DLA achieves \$12 billion in total contract dollars awarded for Part 12 contract actions in FY 05, and if 25 percent of dollars awarded are for contracts valued at \$25,000 or less, then DLA could feasibly achieve \$3 billion in obligations for Part 12 contract actions valued greater than \$25,000 in FY 05. This would exceed the **DoD** goal.

**Number of Contract Actions** – In FY 99, the total number of **DLA** contract actions valued at \$25,000 or less was 1.5 million. **DLA** estimates approximately **270,000** of those actions were awarded using FAR Part 12, based on the same methodology that was used to estimate the dollar value of contract actions valued at \$25,000 or less (see above). A significant portion of contract actions at this dollar value will be awarded under the **PACE** system after the maximum threshold increases to \$100,000. PACE does not include FAR Part 12. DLA expects to see increases in the number of Part 12 awards. For example, long-term contracts will increasingly be awarded using Part 12. Delivery orders against long-term Part 12 contracts will increasingly replace non-Part 12 purchase orders and delivery orders. However, DLA is unlikely to meet the 50 percent goal unless the ERP functionality can **cost-effectively** include FAR Part 12 in the automated procurement system that replaces PACE.

### **SUMMARY OF DLA APPROACH**

The proposed DLA plan includes broad, Agency-wide action items that are intended to facilitate the application of FAR Part 12. DLA anticipates its use of FAR Part 12 to increase significantly, as a result of appropriate Agency emphasis and follow up – accompanied by **guidance, training, support tools, and incentives**. DLA did not task its buying activities to establish specific goals or milestones. Such an effort would require extensive resources and would not produce meaningful data. Many variables that could affect outcomes are impossible to predict and beyond the control of the buying activity. These variables include market fluctuations, contingency or humanitarian operations, mobilizations, reductions or increases in sales, base realignments & closures, and commodity reassignments. If DLA does not see adequate progress in the use of FAR Part 12 under this **plan**, it will commit to **undertake** an in-depth investigation to **determine** what additional actions are needed.