Defense Logistics Agency Instruction

DLAI 1215
Effective: May 23, 2011
J-7/J74

Industrial Capabilities Program (ICP) – Minimum Sustaining Rate (MSR) Studies

References: Refer to Enclosure 1.

1. PURPOSE

a. To establish policy, procedures and guidance to ensure a standardized approach is developed and followed in determining when and how MSR Studies are conducted.

b. This process is performed to identify complex industrial base issues that have the potential for government intervention in the form of MSR contracts to maintain the capability to support the Services' wartime requirements. MSR studies determine the most cost effective solution to these industrial capability issues that impact DOD readiness. If an MSR contract is solicited and awarded as a result of such a study, this instruction also provides guidance on special requirements for pre- and post-award responsibilities of supply chain acquisition and industrial specialists.

c. The outputs of this process are a completed MSR study with recommendations, and if appropriate, a contract or contracts for an MSR of production to sustain a critical industrial capability.

(1) When vendor capability assessment plans and/or industrial capability assessments/studies identify manufacturing sectors that are at risk due to low production, DLA may consider taking action to ensure the viability of the industrial base.

(2) An MSR contract may be an option to maintain adequate readiness levels and provide uninterrupted support to the Warfighter—however it must be preceded by an MSR study and risk assessment.

(3) The MSR study will assess supplier capabilities to meet the Services' and Combatant Commanders' wartime requirements, and identify alternatives to mitigate the loss of, or shortfalls in, industrial capability.

d. The focus of these processes is to ensure that the customer receives goods and services from the supplier at the RIGHT TIME and at the RIGHT PRICE, with special consideration during contingency operations.

2. APPLICABILITY. This Instruction applies to Headquarters (HQ) Defense Logistics Agency (DLA) and the following Primary Level Field Activities (PLFAs): DLA Troop Support, DLA Land and Maritime, and DLA Aviation.

3. POLICY.

a. As a Combat Support Agency which supports our customers in peace and war, DLA seeks the best possible solution to provide the right item, to the right place, at the right time, by considering all possible alternatives to achieve the best possible support to the warfighter. When the viability of an industrial base is identified to be at risk, the Warstopper Program will analyze possible solutions to determine a cost effective approach to maintain a production capability that is sufficient to meet the Services' wartime requirements.

(1) An MSR study is an important tool for assessing industrial base capability in meeting the readiness needs of the Department, and must precede an MSR contract. These special studies are normally conducted at the direction of the Warstopper Program Manager (PM) when it is unlikely that normal acquisition strategies will sustain adequate production capability for critical go-to-war items, and/or when a previous industrial capability assessment or study has indicated the potential need for an MSR contract to maintain an industrial base adequate to support wartime requirements. However, PLFAs may also initiate an MSR study--with the proviso that the Warstopper PM must review and concur with the recommendations before executing an MSR contract.

(2) The MSR study will include a breakeven analysis to determine the lowest production rate that will permit a contractor to recover its fixed costs. This rate is based on the contractor's fixed and variable costs projected over a specified timeframe (normally the next year), and selling price for the item being reviewed. In addition, the study will include a demand analysis to assess the extent of forecasted/ projected DLA demand expected into the future in order to evaluate the gap, if any, in requirements relative to the breakeven point. Once the MSR is determined, the government has the data needed to evaluate the option of pursuing a contract in order to preserve an industrial capability for national defense.

(3) An MSR contract shall only be executed if the DLA inventory resulting from the contract (buys in excess of forecasted demand requirements), when combined with all other War Reserve Stocks, is at or below the Services' validated War Reserve Material requirement. Exceptions to this policy must be authorized by the DLA Senior Procurement Executive.

b. Generally, this policy ensures that relevant industrial capability and contractual instruments are available and utilized to enable DLA to meet the warfighter's requirements in a timely manner. The details of the DLA War Stopper program are contained in DLAI 1212, subject: Industrial Capabilities Program – Manage the Warstopper Program.

4. RESPONSIBILITIES. Refer to Enclosure 2.

5. PROCEDURES. Refer to Enclosure 3.

6. EFFECTIVE DATE. May 23, 2011

Director, Strategic Plans and Policy

3 Enclosures
Enclosure 1 – References
Enclosure 2 – Roles and Responsibilities
Enclosure 3 – Procedures

Enclosure 1
References

1. Section 107 of the Defense Production Act of 1950 (Title 50 U.S.C. App., section 2077), as amended.

2. Defense Planning Guidance.

3. Title 10 USC, Chapter 148, National Defense Technology and Industrial Base, Defense Reinvestment, and Defense Conversion, http://www4.law.cornell.edu/uscode/10/stApIVch148.html.

4. DoD Directive 4400.1, Defense Production Act Programs, October 12, 2001, http://www.dtic.mil/whs/directives/corres/pdf/440001p.pdf.

5. DoD Instruction 3110.6, War Reserve Materiel (WRM) Policy, June 23, 2008, http://www.dtic.mil/whs/directives/corres/pdf/311006p.pdf.

6. DoD Directive 5000.60, Defense Industrial Capabilities Assessments, October 15, 2009, http://www.dtic.mil/whs/directives/corres/pdf/500060p.pdf.

7. DoD 5000.60-H, DoD Handbook: Assessing Defense Industrial Capabilities, April 26, 1996, http://www.dtic.mil/whs/directives/corres/pdf/500060h.pdf.

8. DoD Directive 4140.1, Supply Chain Materiel Management Policy, April 22, 2004, http://www.dtic.mil/whs/directives/corres/pdf/414001p.pdf.

9. DoD Directive 4275.5, Acquisition and Management of Industrial Resources, March 15, 2005, http://www.dtic.mil/whs/directives/corres/pdf/427505p.pdf.

10. Executive Order 12919, National Defense Industrial Resources Preparedness, June 3, 1994, http://www.disastercenter.com/laworder/12919.htm.

11. Defense Logistics Acquisition Directive, subpart 45.1 Government Property http://www.dla.mil/j-3/j-3311/dlad/rev5.htm ; Federal Acquisition Regulation,Part 45-Government Property https://www.acquisition.gov/far/html/FARTOCP45.html; and Defense Federal Acquisition Regulation Supplement, Part 245 http://farsite.hill.af.mil/VFDFARA.htm

12. Executive Order 12742, National Security Industrial Responsiveness, 56 FR 1079, January 10, 1991, http://www.presidency.ucsb.edu/ws/index.php?pid=23581.

13. Air Force Policy Directive 63-6, Industrial Base Planning, dated April 22, 1993, http://www.e-publishing.af.mil/shared/media/epubs/AFPD63-6.pdf

14. DoD Instruction 7041.3, Economic Analysis for Decision making, November 7, 1995, http://www.dtic.mil/whs/directives/corres/pdf/704103p.pdf

15. Title 10 USC, Chapter 137, Paragraph 2304, Contracts: competition requirements, February 1, 2010, http://www.law.cornell.edu/uscode/html/uscode10/usc_sec_10_00002304----000-.html

16. DLAI 1212, Industrial Capabilities Program – Manage the Warstopper Program, https://headquarters.dla.mil/DES/policy/i1212.htm

Enclosure 2
Roles and Responsibilities

1. PLFAs identify and report industrial base issues that require further research and/or analysis. This includes:

a. Initiate or request an MSR study through the local Industrial Planning and Support Office[1](IPSO)/Strategic Material Support Group (SMSG). The PLFA may elect to lead and conduct the study or request a Warstopper-commissioned study that would be led by a team assigned by HQ DLA J74. The MSR Study will consume a significant amount of time and resources; therefore, recommendations for its use should address critical war materiel shortfalls.

b. Provide support to the study team leader, to include technical support from industrial specialists, product specialists, value engineering, demand/ supply planners, acquisition and pricing specialties.

c. Collect, assemble, and provide any previous market research and industrial capability data available within the targeted supply chain.

d. Respond to other data calls and special requests from the study team leader.

e. Present, upon completion, the study/analysis to HQ DLA J74 and other interested parties for review, comments and acceptance. If the study was completed by the Warstopper-commissioned study team, coordinate on and participate in presentations on the outcome of the report.

f. The IPSO will submit budget requests for approved MSR contracts and help execute MSR contracts when funded.

2. The Warstopper PM (HQ DLA J74) establishes policy and procedures to ensure a standardized approach is developed and followed in determining when and how MSR studies are conducted. This includes:

a. Review and concur/non-concur with MSR studies developed and completed by the PLFAs.

b. Review and take action on requests for Warstopper-funded MSR studies to assess the need for an acquisition strategy based on MSR production contracts.

- [1] The Industrial Planning and Support Office is a generic term that represents the different organizational activities that exist in the supply chains for the office that would carry out this function. This term would apply to the Industrial Preparedness Branch for Aviation, Industrial Base Planning Office in Clothing and Textiles (C&T), Industrial Preparedness Branch in Construction and Equipment (C&E), Industrial Support Office for Land and Maritime, SMSG Readiness Division for Medical and Industrial Base Planning Branch for Subsistence.

c. Ensure the effective use of limited resources to complete MSR studies and other Warstopper commissioned studies. HQ DLA J74 can task the PLFA/SMSG to perform and support the study, or may task an outside activity directly. In either case, coordination and consultation with the PLFA will be needed to provide background information and other assistance.

d. Establish standardized processes for research, analysis, documentation and reporting of the results of MSR studies.

e. Ensure the activity that performs the study/analysis will keep HQ DLA J74 and other interested parties, to include the SMSG/IPSO, informed of progress and significant events that may affect the outcome.

f. Coordinate with the PLFAs' commodity SMSG and IPSO to implement study/analysis recommendations as appropriate.

Enclosure 3
Procedures

1. A Minimum Sustaining Rate (MSR) Study is a comprehensive review of a specific industrial base to determine if DoD, through the DLA Warstopper Program, should invest in maintaining industrial capability to meet wartime requirements for critical go-to-war supply items. This type of study normally validates the results of previous industrial capability assessments, if completed, and/or determines if an MSR contract is the most cost effective means to resolve industrial base issues that impact readiness. The need for an MSR study can be identified through several avenues, but will normally be performed only when (1) the product or industrial capability has a National Security Requirement, (2) the product or industrial capability will continue to exist in the future, and (3) the product will be required in the next generation of end items. The potential need for an MSR study may be identified through various means, such as the following:

a. A prior industrial capability assessment that identified an MSR contract as a potential solution to a lack of production capability or a decline in production capacity that puts DLA at risk in being able to support anticipated wartime requirements of the Military Services.

b. The Diminishing Manufacturing Sources and Materiel Shortages (DMSMS) Program. In this case, the loss or impending loss, of manufacturers of items or suppliers of items or materials may cause supply shortages that could endanger weapon system or equipment development, production, or post-production support capability. When the DMSMS Program cannot develop a solution to provide continued support to DLA customers after an established producer or industry indicates that it will no longer produce the item, the issue may be referred to the Warstopper PM for review.

c. Supply chain industrial specialists may become aware of industrial capability issues while working with industry, supply planners, acquisition specialists, and/or contracting officers. Problem identification at this level could occur when contracting officers are notified that a specific manufacturer will not continue to produce an item because DOD has or will stop buying the item or its major end item, the manufacturer is no longer interested in producing the part because of a lack of orders, or the industry as a whole has stopped producing the item for whatever reason.

d. Suppliers notify DLA of a downturn in forecasted requirements.

e. Information received from Congressional or other inquiry.

2. In all cases, before a request for an MSR study is sent to the Warstopper PM or initiated at the PFLA, the responsible IPSO manager, SMSG chief, supply chain manager, or DMSMS Program representative should consider the following in declaring that an industrial base issue is a potential problem that warrants a formal study to determine the best course of action:

a. A review of work done by other activities, e.g., assessments or studies done by the Defense Contract Management Agency, the Office of the Secretary of Defense, a branch of the Military Services, or other DoD activities.

b. A survey of the marketplace to determine if there are other suppliers that can produce the item or if other suppliers have the needed industrial capability.

c. If this is a normal vendor problem, e.g., components become obsolete when manufacturers change models, companies stop making certain products and other sources for the products must be qualified, late deliveries, quality issues, problems with sub-tier suppliers, etc, it **should not** be addressed by this process.

d. If there is another product being produced that can replace the item in question with no or little modification.

e. If the capacity or level of output of the industrial capability is beyond the needed requirement, the potential loss of some of it may not be of concern as long as it is only affects production in excess of defense needs.

f. Determine whether contract changes may be implemented to alter delivery, payment, or other conditions such that the supplier's business problems are eased. Use of multiple year contracts or other purchase planning tools that can provide the supplier with a more stable operation should also be considered. This option is limited if no or only limited future sales are expected.

g. Consider deviations or other appropriate mechanisms for the elimination of procurement restrictions that may be exacerbating the loss of capability.

h. Determine whether the capability may be preserved by increased sales, by current suppliers, of the same product or similar products to users other than the Department of Defense. If foreign sales were blocked due to a Government action, e.g., a trade barrier or an export license, would the removal of these restrictions increase product demand and save the capability?

i. Consider commercial products that can meet the military need. This offers cost efficiencies of a larger demand base and products that will benefit from new technologies as a result of competition.

j. For commodities not restricted by the Berry Amendment or other domestic source restrictions, consider whether it is possible to expand the field of suppliers by looking at the global market place. Consider the following: (1) Is there a vendor, domestic or foreign, that has a lower sustainment requirement? (2) Are there trade restrictions that could be waived? (3) Has a Domestic Non-Availability Determination been considered? The international industrial base may offer the needed product, and this also could offer cost efficiencies. With the proper selection of suppliers, DLA could gain from a significantly expanded use of foreign sources without becoming vulnerable to those same sources.

3. Once the responsible manager is confident that the shortfall in, or loss/potential loss of industrial capability warrants an MSR study, a request should be submitted to the Warstopper PM in accordance with (IAW) the DLA Warstopper Instruction. If the manager can perform the study without funding he/she is encouraged to perform it IAW DOD 5000.60-H and the guidance that follows in this instruction.

4. HQ DLA J74 will review funding requests and take action. If the request is approved, the Warstopper PM will provide funding and the study commissioning document to the manager or an outside activity to perform the study, or prioritize and include it in the unfunded requirements of the Warstopper Study Plan. DLA J74 will work with J8 during the budget process on unfunded requirements.

5. The MSR study must be conducted with no preconceived ideas as to the correct or best solution. The intent of an MSR study is not to preserve any particular industry or company, but to find the best and most cost effective solution to support the readiness of DLA customers.

6. The MSR study team should confirm that the tasks/issues presented in Paragraph 2 above were addressed. If not, the team will need to verify that the defense related needs are truly unique and cannot be replaced by commercial or foreign sources, and the company does not have a financial problem--only then should government action should be considered to maintain the company's desired capability. In addition to Paragraph 2 above, the initial phase of the study must address the questions/issues listed in the sub-paragraphs below if not completed during an industrial capability assessment.

a. This phase of the study will determine if the capability will be lost or degraded to an unacceptable level if development or manufacturing is reduced or interrupted. Capabilities (people, machining processes, skills) are often used by industry in the production of other products so they may not be completely lost. Very few industrial capabilities are completely lost when one line is shut down; therefore you may not need to invest to keep those skills, but some capabilities may require investment to be retained. A technical analysis will need to be performed to address each capability or concern to determine how the capability will be affected by the loss of the product line if it is not supported continuously or at some minimal rate. This phase of the study should answer the following questions:

(1) Will a specific skill, process, or piece of equipment be affected by changes in the activity rate or level?

(2) Can a skilled workforce be reestablished?

(3) Can the process provide quality products at various rates?

(4) Will the equipment, tooling, and material be available when needed?

(5) Has the activity been restarted after previous interruption, however brief?

b. Once the study team has determined that the capability is needed to be sustained, it is time to examine the cost, lead-time, consequences, and risks of pursuing the alternatives available, if a needed capability is determined to be truly endangered. Action will only be taken to maintain an industrial capability if the time or cost to regenerate that capability, once lost, would prevent the DOD from meeting its mission needs. The goal in this evaluation is to determine which alternative or alternatives best meet the Department's needs, given time and cost. Some of the alternatives to consider would be:

(1) No action - This alternative literally means choosing to take no action and make no investment to extend or preserve any part of the capability. This alternative may be particularly appropriate in product areas for which the DoD near-term requirement is terminating and future requirements are unclear, or would likely be met by a much altered configuration.

(2) Foreign sources – This applies to commodities not limited by the Berry Amendment or other domestic source restrictions. Although the original manufacturer may have been domestic, viable alternative sources may exist if the market is more broadly explored. Reliable foreign suppliers are usually acceptable, and in fact, are encouraged to allow DOD to obtain a wider competitive cost and technology base. DOD has reciprocal procurement agreements with many nations in which each party agrees to consider the other as a potential supplier for defense purposes. DOD seeks to use foreign sources wherever advantageous and within the limitations of the law.

(3) Substitutes - Simple, direct substitutes for a common part or material should be adopted as a matter of course. This alternative examines finding a substitute when a simple part or ready source substitution is not an option. The study team should determine if other DOD programs or industry employ a different capability or produce a product that could serve as a substitute to meet program needs.

(4) Lifetime buys - A life-of-type buy is the purchase and storage of anticipated lifetime quantities of the product that the capability supports. In order to take this type of action one needs good requirements determination and consideration of storage investments. An alternative to this type of buy for shelf life items would be stockpile and replenish, e.g., the approach used to maintain the capability to produce nerve agent autoinjectors. Under this approach, periodically expiring shelf-life items would have to be replenished.

(5) New technology to meet the requirements - A new technology solution might offer a feasible alternative to preserving an existing capability, even if it only partially meets the current need. A technology solution could be a substitute for a capability; for example, an advanced technology approach to manufacturing an item that promises to replace the current "at risk" manufacturing process. It could also be a replacement for the product or system that the current capability is used to support.

(6) Smart shutdown - Smart shutdown means purposely preserving certain elements essential to reproducing a product or service, while allowing the current development or production activity to stop. Examples of actions to preserve certain elements include storing and maintaining equipment and tooling, cataloging and tracking personnel skills, videotaping and photographing or otherwise documenting processes, stocking critical raw materials, and creating computer-based models of the product to be reproduced. DOD programs are usually terminated because there is no longer a requirement for the current "version" of the product. If the current or a similar product or capability may be required in the future, smart shutdown investments should be considered.

(7) Maintain the current capability – DOD will take an acquisition action to sustain a current development or production activity in order to preserve a capability. This should only be considered if a known or projected future requirement for the current product exists. Possible acquisition actions to sustain the capability may include the following:

(a) Issuing a "bridge" contract to maintain a predetermined production rate across a "requirements gap."

(b) Stretching out production quantities to keep a production line going at a production rate just sufficient to keep it "warm," that is, to keep critical capabilities intact (an MSR contract strategy).

(c) Covering only fixed costs when forecasted demand is below the MSR in order to avoid accumulating too much inventory in excess of requirements.

7. The next phase of the study will focus on collecting and analyzing production and financial data. From the information collected from the financial and breakeven analysis (explained below), the analyst will need to determine the level of effort and number of units/rate of production needed to sustain the company. If near-term requirements are too low to sustain the technical viability or accuracy of the capability, the study team will need to perform a technical analysis. This analysis must examine the specific technical aspects of the capability that make it volume, rate, or time sensitive. Try to define the risk that is associated with variations in this rate. Analysts will need to determine the lowest possible rate or level of effort that can be performed and yet still maintain the viability of the needed capability

a. The purpose of the MSR is to determine the lowest production rate that will permit a contractor to recover its fixed costs, using a breakeven analysis. This rate is based on the contractor(s) fixed and variable costs, and selling price for the item being reviewed.

b. Knowing the MSR permits the government the option of pursuing a contract in order to preserve an industrial capability for national defense.

(1) Lay out what the study is supposed to accomplish, know what the objective or purpose is, and determine what data you will need to capture, as well as what the sources for that data are.

(2) Use DOD 5000.60-H as one of your sources for official guidance.

(3) Determine what offices or personnel are available to support this effort and what expertise they can provide to the study effort. If required, HQ DLA J74 can help to identify and task the proper personnel. The financial and breakeven analysis may require assistance from financial and/or audit activities.

(4) Request the appropriate financial documents from the company being considered in the MSR analysis. If an Industrial Capabilities Assessment was performed, financial statements for the company or division of the company may have already been collected. However, these documents normally provide assets, liabilities and income for the company or division, not for the item/product you are trying to determine an MSR for, nor at the level of detail needed to complete a thorough analysis. The analyst will need to contact the company and request specific financial data that supports the item(s) being researched. In many cases this data is proprietary or commercially sensitive in nature, so some companies might resist providing it. The analyst needs to be prepared to explain fully the need for the data and that this is part of the DOD-

approved approach for this type of analysis. The company should clearly understand what the financial data is being used for, how it is in their best interest to provide it, and that it will be treated as proprietary commercial information if so marked by the company. The following data is required:

(a) Fixed Costs for the production of the item. These are costs that remain constant regardless of changes to level of production. They would include rent, insurance, salaries, etc.

(b) Variable Costs for the production of the item. These are costs that change with the amount of production (direct labor, materials, production utilities, etc., used to make the product).

(c) Selling Price. The price the contractor will charge for the item.

(d) Since these pieces of information are critical to the analysis, it is especially important that this information be reviewed to determine that they are reasonable. The Analyst may have to question them and go back to the company for clarification, and if necessary come to an agreement with them on what the right numbers are.

(5) Once there is agreement on the "right" numbers, an MSR analysis can be performed. The Breakeven quantity, or MSR quantity, is equal to the annual Total Fixed Costs divided by the Selling Price minus the Variable Cost per Unit. The selling price minus the variable cost per unit is called the Contribution Margin. The MSR can also be shown as the Total Fixed Cost divided by the Contribution Margin.

(a) MSR = Total Fixed Cost / Contribution Margin, or

(b) MSR = Total Fixed Cost / (Selling Price – Variable Cost per Unit)

The above determines the number of units that must be produced on an annual basis to cover costs, i.e., breakeven.

(6) The MSR is calculated based on data received from the contractor and probably represents the current configuration of its production base. The present production capability might represent more capability than is needed by the company or the government, raising the fixed costs and MSR. The analyst should investigate the possibility of reducing these costs. This would best be done working with the company. An example of an inflated production base would be a company that has "x" machines that were used to support a past high level demand that is no longer supportable. If data was collected from the company based on x machines, the MSR would reflect keeping all machines operating. A downsizing of x to y machines probably would reduce fixed costs, thereby reducing the MSR, and lowering the cost to the government if it chooses to exercise an MSR contract. In previous studies, the revised figures were called the "adjusted cost basis."

(7) If the projected demand is significantly below estimated MSR or even zero, and there is not much tolerance for accumulation of inventory because of, e.g., shelf life issues, or there is too much war reserve already on hand within the Military Services, another possible solution may be an Industrial Base Maintenance Contract (IBMC). Within the realm of an MSR

Analysis, the demand forecast or future requirement is essential to justifying an MSR contract. The analyst will need to assemble requisition data, current inventories, items on order and current WRM requirements. The WRM requirements should be verified with the services to ensure they are still current and credible.

(8) Briefing the calculations and results to the vendor is an essential step in this process. This necessary accuracy check of the data shows the vendor how its costs were used. If there were any mistakes in data collection or misinterpretations of the data provided, this step provides an opportunity to identify and resolve any such issues. Data is a snapshot in time and subject to change—the analyst needs to recognize possible changes and account for them now. For example, the current selling price is x, but in order to operate under the MSR the contractor states that the price will increase. The final analysis should reflect the original work and the increased price should be called out in the report. This price increase will affect the final cost to the government if a contract is awarded to the vendor.

8. Once MSR quantities are determined, the analyst calculates a Return on Investment (ROI) to determine the long-term cost effectiveness of the proposed MSR acquisition strategy. This is generally the total dollar value of the benefits gained divided by the total cost of the MSR support option. An ROI equal to, or greater than one, will further support justification for recommending the MSR option as a cost-effective alternative, and justify use of Warstopper funding.

a. The cost of the MSR option is typically offset by the Surge and Sustainment coverage gained through the investment. Inventory accumulated as a result of the MSR investment would be "protected stock" if maintained in DLA inventory, or issued to the Services to be included in/added to their War Reserve inventories. Thus the investment has a 1:1 ratio before considering other benefits gained.

b. To determine the ROI intangible contributions, identify the avoided costs, such as a normal price increase or possible expedited delivery costs to fill unexpected contingency demands.

c. An additional cost avoidance benefit is the cost to reconstitute the industrial base if an MSR contract was not pursued and awarded.

9. After the MSR study is completed, a Risk Assessment will need to be performed. This assessment should address risks to DOD support of the warfighter if the industrial base is eliminated or reduced to only one source. The study team lead should also determine if there are any risks to future contracting actions by not requesting a DCAA audit that could reveal financial issues not addressed in the MSR study or the Industrial Capabilities analysis that led to calculation of the MSR.

Note: Meeting phased wartime requirements may necessitate two or more vendors, and this process needs to consider the value of multiple vendors even if this need is not specifically addressed in DOD 5000.60-H.

10. MSR contracts should follow the same procedures as other contracts. The acquisition strategy will comply with FAR/DFARS/DLAD and all other applicable guidance in executing Warstopper funded contracts and delivery orders.

a. Once an MSR contract is determined to be a cost effective alternative and an award will be made, the contracting officer will need to consider current inventories, Military Service wartime requirements data, demand forecasts from the supply planners, and the MSR report that provided recommended buys by NSN and quantity for each year that funding was provided. When multiple sources are involved, the contracting officer should look across existing contracts and determine which companies are already operating at or above MSR rates, and then provide orders/execute contracts to those that are not operating at MSR level. The estimated total of accumulated inventories should be developed based on recent demand history and wartime planning requirements so that early surge requirements could be met and industry would have time to ramp up to meet on-going sustainment needs of the Warfighter. The Contracting Officer may have to conduct the acquisition/procurement in accordance with the Industrial Mobilization Authority or Unusual and Compelling Urgency Authority, derived from Title 10 USC, sections 2304(c)(3) and (c)(2), to meet these wartime needs.

b. Use the MSR study to provide any adjustments to fixed cost basis. If a previous industrial capability assessment or MSR study is 18 months old or older, a fixed costs adjustment may need to be considered if original data is outdated/no longer accurate.

c. MSR contracts require no specific exit strategy since this type of contract does not normally require vendors to accumulate inventory or lead time materials. Delivery orders are normally executed with the product delivered to DLA for warehousing.

11. Post Award Management. Stock generated from an MSR contract that was procured with Warstopper funds should be considered protected inventory and not be commingled with other inventory. This “protected inventory” should only be released to meet contingency or humanitarian requirements.

a. MSR procured inventory will be manually moved into a fenced asset code to preclude release of Warstopper-funded items without appropriate review and approval. For example, condition code “EA” is used by one supply chain to identify Warstopper-funded inventory.

b. An Item Note needs to be created to inform everyone not to release MSR assets unless authorized under the conditions stated below.

c. MSR assets will only be released in the following manner:

(1) Integrated Supplier Teams shall issue MSR materiel when DLA working capital inventories alone cannot, or will not, support contingency operations, or when authorized through a Peacetime Supply Issue as described below.

(a) Contingency demands are higher than normal peacetime levels, and the potential for a stock out exists if routine replenishment procedures are followed, or

(b) A Peacetime Supply Issue (when DLA is unable to meet the customer's required delivery date for a weapon system repair part that is coded Not Mission Capable-Supply, a critical item that impacts mission capability, or to prevent the loss of life/property, or meets the FAR criteria for an unusual and compelling requirement if routine fulfillment/replenishment procedures will not satisfy the requirement) exists and the sale of the MSR assets would not violate guidance in Paragraph (2) below, or

(c) DLA receives projected coded requisitions in support of:

1. Contingency operations,

2. Reconstitution of resources following a major exercise or contingency, or

3. Other circumstances that put DOD resources at a higher risk than normal operations tempo, or

(d) Senior management (HQ DLA J-7 or above) determines that selling MSR assets are appropriate to prepare DLA for anticipated increases in demand due to a national emergency.

(2) Prior to the release of MSR assets, it must be determined that MSR asset use will support deploying or deployed forces in actual or anticipated contingency (including a declared contingency with or without a project code, a build up of forces, the call up of Reserves for deployment, or such events that are by their nature intended to place DOD resources in a contingency, or at a higher than normal operations tempo to include a natural disaster).

(3) Determinations to release must consider conservation of consumable MSR investments through replenishment or stock rotation. Free issue of consumable MSR investments must have prior approval from HQ DLA J74 through the supporting Strategic Materiel Sourcing Group.

d. Once MSR stock is released, the funds generated from these sales will be used to replenish the MSR stock if the use of these funds are approved by HQ DLA J8.

(1) Hold funds until HQ DLA J8 approves use of funds to purchase replenishment stocks, or

(2) Return funds used to purchase MSR stock for appropriate disposition by J8.

e. The Warstopper PM, HQ DLA J74, will be notified by the PLFA of all actions taken relative to MSR materiel.