



1600 Wilson Boulevard | Suite 900 | Arlington, VA 22209
Phone: 703-522-5828 | Fax: 703-522-5837

Air Force Plan to Insource F-35 Supply Chain Management will Hurt the Program

Daniel Goure, Ph.D.

Monday, September 26, 2011

The Air Force senior leadership is adamant that their service must have the F-35 Joint Strike Fighter (JSF). With its advanced stealth features and 21st century sensor capabilities, the JSF will be a game changer in air warfare not only for the Air Force but for the Navy and Marine Corps as well.

It should be no surprise that the development of a brand new airplane -- really three -- would encounter problems. The program has faced the usual technical challenges but is now making steady progress. The Air Force variant is ahead of schedule when it comes to meeting test objectives and the Marine Corps' variant, the STOVL F-35B, looks like it is on track to get off probation, possibly even early.

It is ironic that the main challenge to the F-35 program at present has nothing to do with the plane's performance. Rather it has to do with the program's costs and not even its current costs but the possible operations and sustainment (O&S) costs for the entire F-35 force out to the year 2065. Not surprising, without any context for comparison, the resulting number, a little over \$1 trillion, sent everyone screaming into the night. Of course, what was not pointed out amidst the cacophony was that using the same methodology over the same period, the current fleet of tactical fighters such as the F-16 and F/A-18s would require spending *\$4 trillion* on O&S. By definition, the F-35 program is a good deal. As my colleague, Loren Thompson pointed out in an earlier blog, between now and 2065 the O&S costs for military bands would exceed \$50 billion dollars. That is the problem with using then-year cost estimates.

So why would the Air Force choose this point in time to propose steps that could undermine the whole effort? I am referring to the Air Force's proposal to insource both sustainment of aircraft and management of the supply chain for the entire F-35 program, apparently including the portions belonging to the other services and, possibly, even foreign partners.

What makes the Air Force's idea particularly hair-brained is that one of the selling points for the F-35 program was that it would lower sustainment costs by relying on a single integrated, multi-service and international supply chain and O&S system that would leverage commonality of parts, advanced diagnostics and total visibility across the supply

chain. This system is designed specifically to bring down repair times, increase availability of aircraft and, perhaps most important, reduce the excess inventory of spare parts across the entire fleet.

One way of reducing costs is by managing the entire spare parts inventory for the F-35 fleets as a global pool. The defense department's management of parts and supplies is legendary for its maintenance of excess inventories, poor accuracy in forecasting demand and sub-standard order fulfillment. So why does the Air Force think it could do better this time when it has even less familiarity with the product or the supply chain?

The Air Force is conducting a Business Case Analysis intended to demonstrate whether the Air Logistics Centers can perform the work at lower costs than the private sector. There is the question whether a true apples-to-apples comparison between the public and private sector operations is even possible given the inability of the former to accurately account for all its costs as documented in a recent study. More important, there is a demonstrated track record of public-private partnerships saving the Department of Defense billions of dollars. The F-35 program is the poster child for a public-private arrangement, which is why prime contractor Lockheed Martin proposed it in the first place.

The Air Force needs to be working with the F-35 partner companies on ways to reduce the alleged trillion dollar O&S bill. Instead, the Air Force is taking a risky step that could increase program costs as well as personnel and management burdens for the Air Force overall. Why the Air Force would want to do such a thing in the current fiscal environment is anyone's guess, but it certainly doesn't have much to do with military preparedness.