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U.S. Air Force Does "Barrel Roll" On Insourcing

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The barrel roll is a basic fighter maneuver in which a pilot responds to a sharp turn by a hostile aircraft seeking to evade pursuit by doing a combination of a turn and an up-and-over move. It is a well-established maneuver that allows a pilot to reverse course and place his aircraft in level flight behind the target, on the enemy's "six."

The U.S. Air Force seems to have performed a barrel roll on insourcing, the practice of taking activities performed by the private sector and bringing them into the public sector. For more than two years the Department of Defense has been on a campaign to insource anything and everything it could. The Air Force was an enthusiastic proponent of insourcing, applying it to a wide range of activities from the maintenance and overhaul of aircraft to the modernization of major weapons systems and management of supply chains. The Air Force claimed that it could save money and improve performance by assuming management of these types of activities, eliminating some of the fees charged by private contractors and giving a larger fraction of the day-to-day work to the government employees at its three air logistics centers. The Air Force claimed that its business cases analyses demonstrated that insourcing would save money with no loss in efficiencies.

One of the first programs the Air Force sought to insource was the C-17 III Global Sustainment Program (GSP) which was being performed by a team led by Boeing and including Pratt & Whitney and the Warner-Robbins air logistics center. At its inception, almost ten years earlier, the C-17 GSP contract was one of the first to employ the concept of performance-based logistics (PBL) under which the Boeing-led team committed to achieving specific levels of performance (such as the percentage of the total C-17 available to the Air Force on a daily basis) for a given price. In fact, the C-17 GSP achieved one of the lowest dollars per flight hour sustainment rates of any Air Force program. U.S. Air Force data showed that between 2004 and 2009, the GSP program reduced C-17 dollars per flight hour by 28 percent. This cost reduction was achieved while maintaining the best mission capable rates of any airlift platform.

Although the C-17 GSP met all its contractual commitments and was reducing costs year-on-year, the Air Force conducted a business case analysis which concluded the Air Force could save money by terminating the program, assuming overall management of the effort itself and insourcing the work to Warner-Robbins. Boeing was retained as a traditional part supplier.

This week the Air Force reversed direction, performing a barrel roll on C-17 sustainment. The Air Force awarded the Boeing team a 10-year, $11.75 billion PBL contract. Under the new C-17 Globemaster III Integrated Sustainment Program (GISP), Boeing will continue to manage C-17 sustainment activities including the global supply chain, depot maintenance support, aircraft repair and field support.

What explains this 180 degree course change? Apparently, many of the “savings” assumptions in the Air Force’s business analysis proved elusive. The analysis undervalued the way a PBL model incentivizes the private contractor to invest its own money in techniques, tools, facilities and training to improve affordability and increase delivered capability. The Air Force also failed to recognize the value of operating a single, integrated global supply chain that can minimize the accumulation of parts and ensure timely delivery. Using the PBL approach, the Boeing team was able to demonstrate significant additional savings over time while improving program performance.

Were the C-17 GISP the sole example of how the private sector saves the government money, the Air Force’s decision could be dismissed as an exception, possibly one unique to the character of the platform. However, Boeing is currently operating under almost two dozen similar contracts for a wide range of platforms and systems. Nor is Boeing alone in achieving success with the PBL model. Lockheed Martin has an equally impressive record of saving the Pentagon hundreds of millions of dollars on its PBL-based sustainment contracts while improving performance. Contractor-based sustainment, particularly when performed using a PBL model, succeeds.

So when will the entire Air Force get the memo? Even as it was making the decision to turn C-17 sustainment, including supply chain management, back over to Boeing, the Air Force was planning to insource management of the global supply chain for the F-35 Joint Strike Fighter. Let me see if I have this right; the Air Force, which lacked the wherewithal to successfully manage the supply chain for a relatively mature platform, with only a small fleet of aircraft operated largely by one service, is now going to take over the global supply chain for an aircraft that has not even entered full rate production, will be deployed in the thousands and be operated by the U.S. Air Force, the U.S. Navy, the Marine Corps and at least eight foreign countries. This means there will be two supply chains, one run by Lockheed Martin for the F-35’s production line and one to support deployed aircraft, and two supply chain managers. How could this possibly save money and improve performance?

From its inception, the F-35 program was planned on the basis of a single, integrated global supply chain designed to save on sustainment costs. If the Air Force could not manage global sustainment for its own fleet of C-17s, why should the Navy and Marine Corps trust it to do it for the F-35? Seems like it is time for the Air Force corporately to do a barrel roll on insourcing, kind of like its precision flying team, the Thunderbirds, at an air show.