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Public Private Business Models for Defence Acquisition

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*“Doing more
with less”*

“Affordability”

*“Faster,
cheaper,
better”*

“Smart Defence”

“Pooling and Sharing”

“Times of Austerity”

Public Private Business Models for Defence Acquisition

Presentation at the Acquisition Research Symposium

Thursday, May 15, 2014

Deputy Research Director Thomas Ekström

FOI, The Swedish Defence Research Agency

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*“Adequate/Reduced/Optimised/Minimised
Logistics Footprint/Tail/Burden”*



Outline of presentation

- Introduction
- Theoretical frame of reference
- A multiple case study in the UK
- Major findings
- Summary

Perspectives

Lützen
6 November 1632

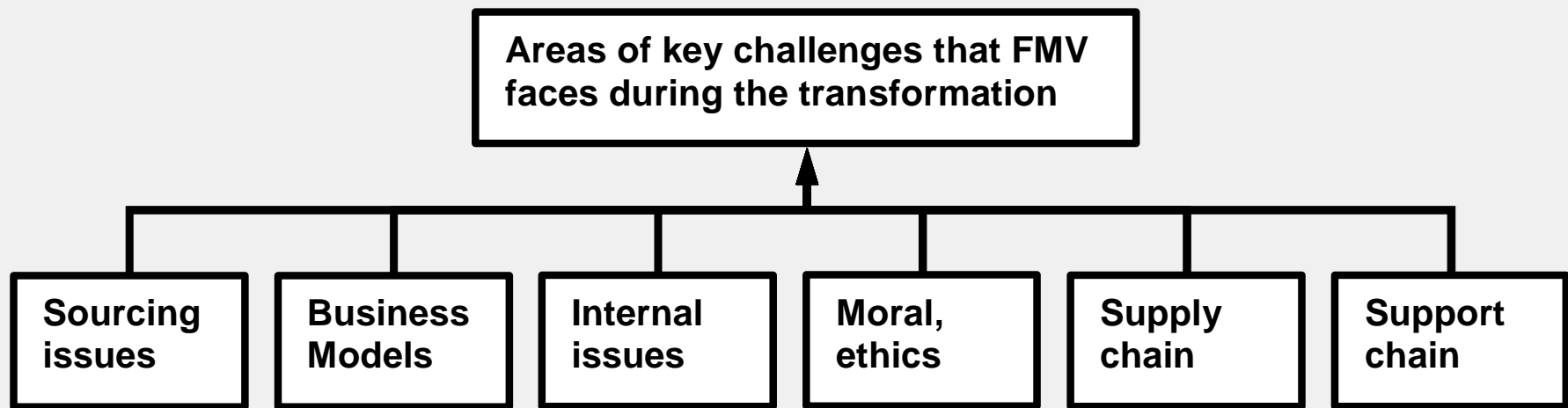


In the midst of the notorious fog of war...

Research Purpose

- Commissioned research => agreement between FMV (the Swedish DPA) and Lund University:
 - *“Study, analyse, and evaluate Business Models (BMs) regarding how they can handle the new supply concept that a new logistical interface brings about, with a particular emphasis on the risk taking that is part of the business concept”.*

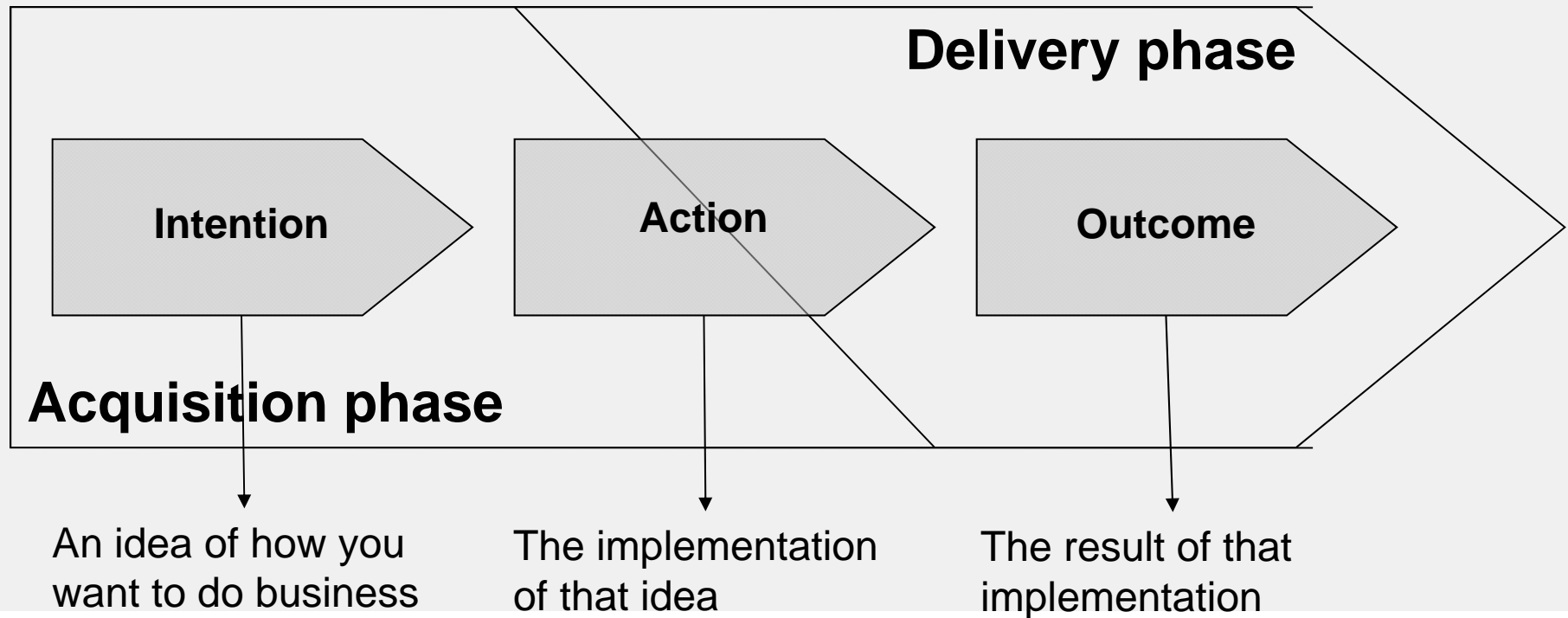
Research Problem



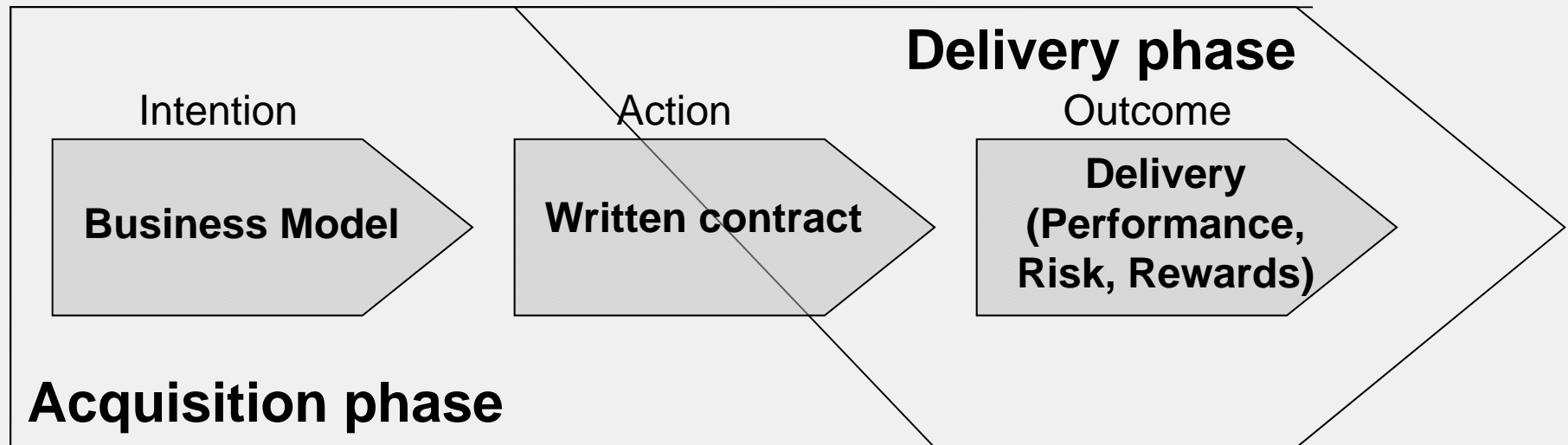
Research Questions

- Research Question 1:
 - How can a generic Business Model for a non-profit, governmental, Defence Procurement Agency be described?
- Research Question 2:
 - Which strengths and weaknesses do different Business Models have in the context of defence acquisition?
- Research Question 3:
 - Which risks are associated with different Business Models in the context of defence acquisition?

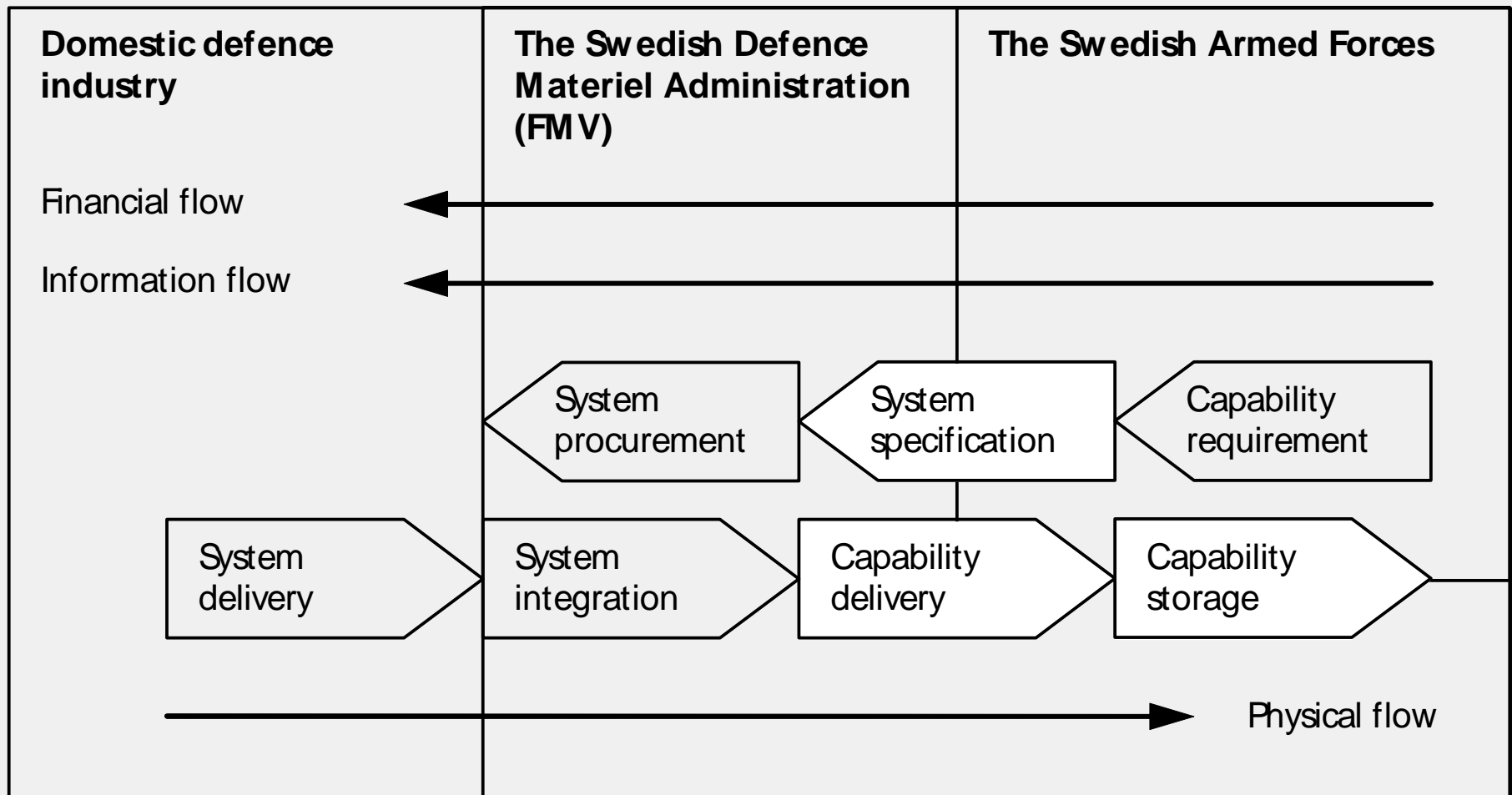
A Defence Acquisition Project: My view



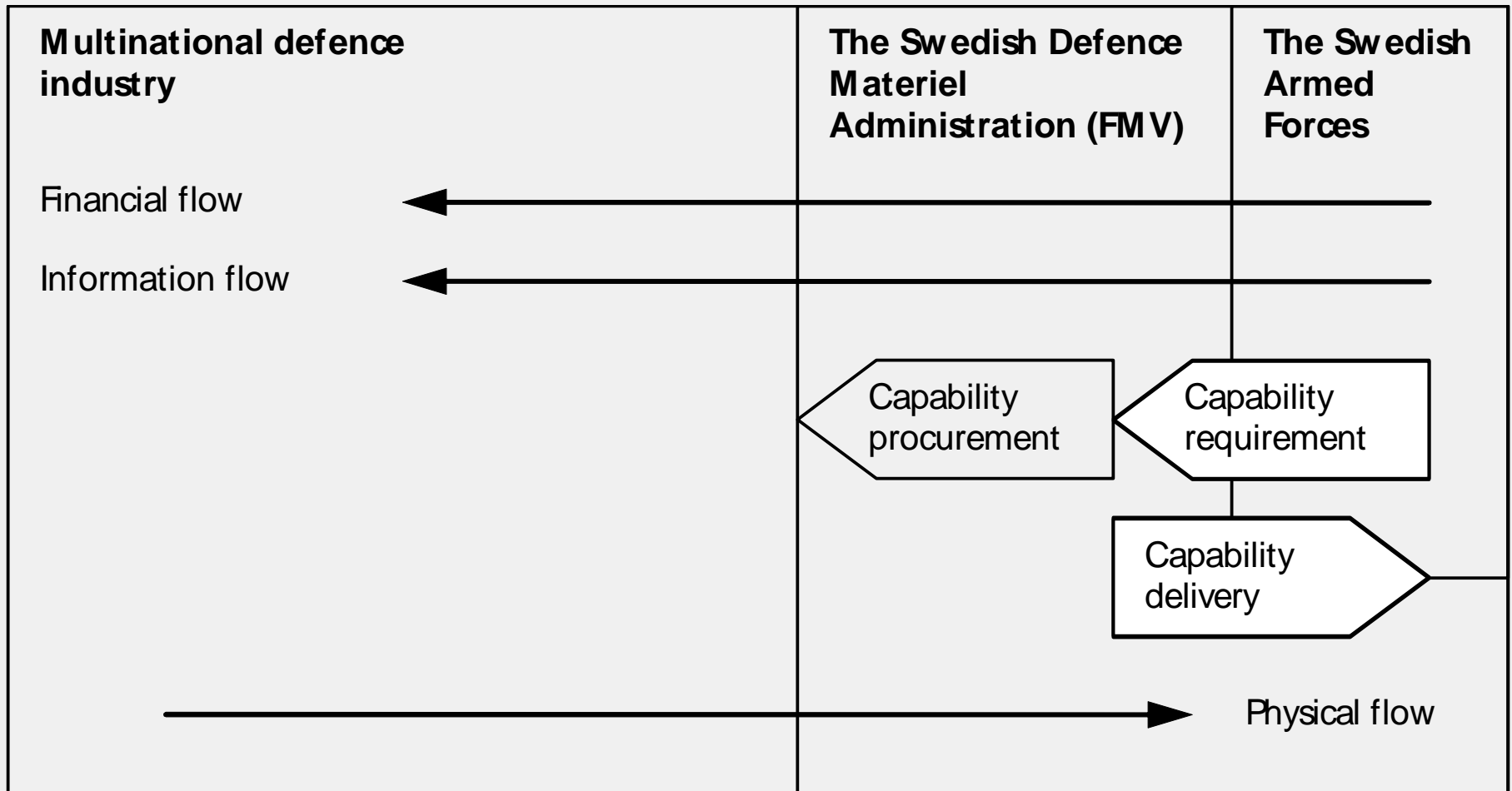
A Defence Acquisition Project: My view



The Swedish Cold War System



The Swedish Post-Cold War System



The Business Model Ontology: Theory

Business model pillars	Business model building blocks	Description of business model building blocks
Product	Value proposition	The overall view of a company's bundle of products and service's that are of value to the customer.
Customer interface	Target customer	The segment of customers a company wants to offer value to.
	Distribution channel	The means of getting in touch with the customer.
	Relationship	The kind of link a company establishes between itself and the customer.
Infrastructure management	Value configuration	The arrangement of activities and resources that is necessary to create value for the customer.
	Capability	The ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.
	Partnership	The voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer.
Financial aspects	Cost structure	The representation in money of all the means employed in the business model.
	Revenue model	The way a company makes money through a variety of revenue flows.

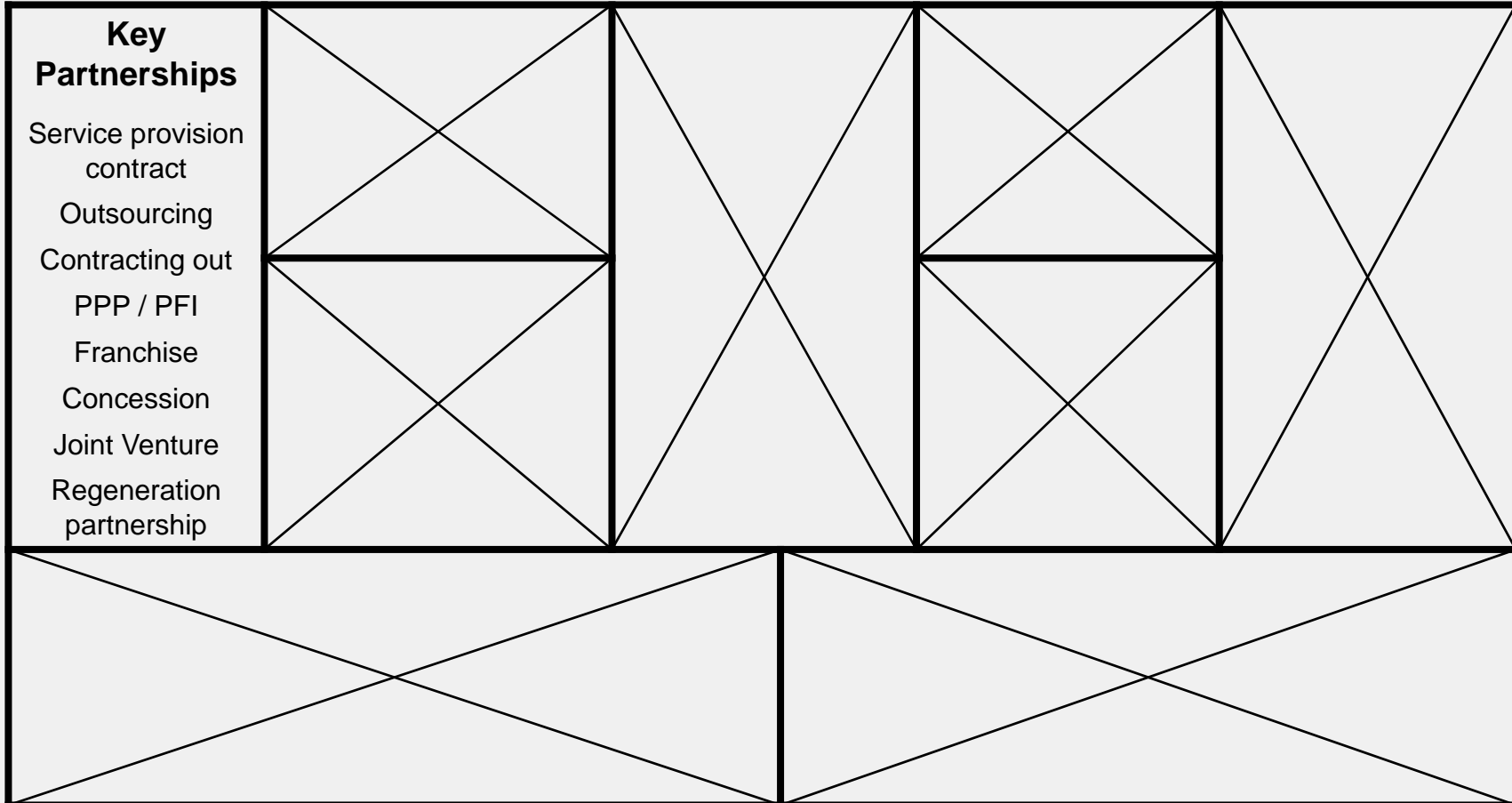
The Business Model Canvas: Practise

<p>Key Partnerships</p> <p>“The network of suppliers and partners that make a business model work”.</p>	<p>Key Activities</p> <p>“The most important things a company must do to make its business model work”.</p>	<p>Value Propositions</p> <p>“The collection of products and services that create value for a specific customer segment”.</p>	<p>Customer Relationships</p> <p>“The types of relationships that a company establishes with specific customer segments”.</p>	<p>Customer Segments</p> <p>“The various groups of people or organisations that an enterprise aims to reach and serve”.</p>
	<p>Key Resources</p> <p>“The most important assets required to make a business model work”.</p>		<p>Channels</p> <p>“How a company communicates and reaches its customer segments to deliver a value proposition”.</p>	
<p>Cost Structure</p> <p>“All costs incurred to operate a business model”.</p>			<p>Revenue Streams</p> <p>“The cash a company generates from each customer segment”.</p>	

Public Procurement Business Models

- Her Majesty's Treasury's view on Business Models = PPP theory view on Business Models:
 - Service provision contract
 - Outsourcing
 - Contracting out
 - Public Private Partnership (PPPs)
 - Private Finance Initiative (PFI)
 - Franchise
 - Concession
 - Joint Venture
 - Regeneration partnership


HMT's view and the BM Canvas



Decomposed Research Purpose

Decomposed Research Purpose	Relevant area of theory
study, analyse, and evaluate business models	Business Models
regarding how they can handle	Performance Measurement
the new supply concept	Military Logistics
that a new logistical interface brings about	Public Private Participation
with a particular emphasis on the risk taking	Supply Chain Risk Management
that is part of the business concept	Defence Acquisition

A PPBM for Defence Acquisition

<p>Key Partnerships Spectrum of degree of Public buyer – Private supplier Cooperation (PPC)</p> <p>Process for selection of partner</p> <p>Identity of partner</p> <p>Network of suppliers</p>	<p>Key Activities Public buyer or private supplier responsibility, as well as Transfers (T) of responsibility, for activities such as: Design (D), Finance (F), Buy (B) / Rent (R) / Lease (L), Construct (C) / Build (B), Develop (D), Own (O), Operate (O), Manage (M), and Maintain (M) for products (equipment) and services (support).</p>	<p>Value Propositions Equipment: Existing – Standard (OTS) – Adaptation – Foreign Development – Domestic Development</p> <p>Support: Traditional – Contractor Logistics Support (CLS) – Contract-for-Availability (CfA) – Contract-for-Capability (CfC)</p> <p>Influence on other Defence-Lines-of-Development (DLoDs): Training (T), Equipment (E), Personnel (P), Information (I), Concepts and Doctrine (D), Organisation (O), Infrastructure (I), Logistics (L)</p>	<p>Customer Relationships Spectrum of degree of compliance with – opposition to the user requirements: Colleague, Procurer, Challenger</p>	<p>Customer Segments Section or department within the Armed Forces Permanent Joint Headquarters (PJHQ) or the Front Line Command (FLC) Or Service within the Armed Forces Or Branch, Corps, Regiment, or Military unit within the services</p>
<p>Cost Structure Only different forms of the external costs (i.e. FFP, FPI, CPIF, CPFF, PBC) have been explicitly included.</p> <p>Internal costs are NOT included in this thesis</p>		<p>Revenue Streams NOT included in the reported research</p> 		

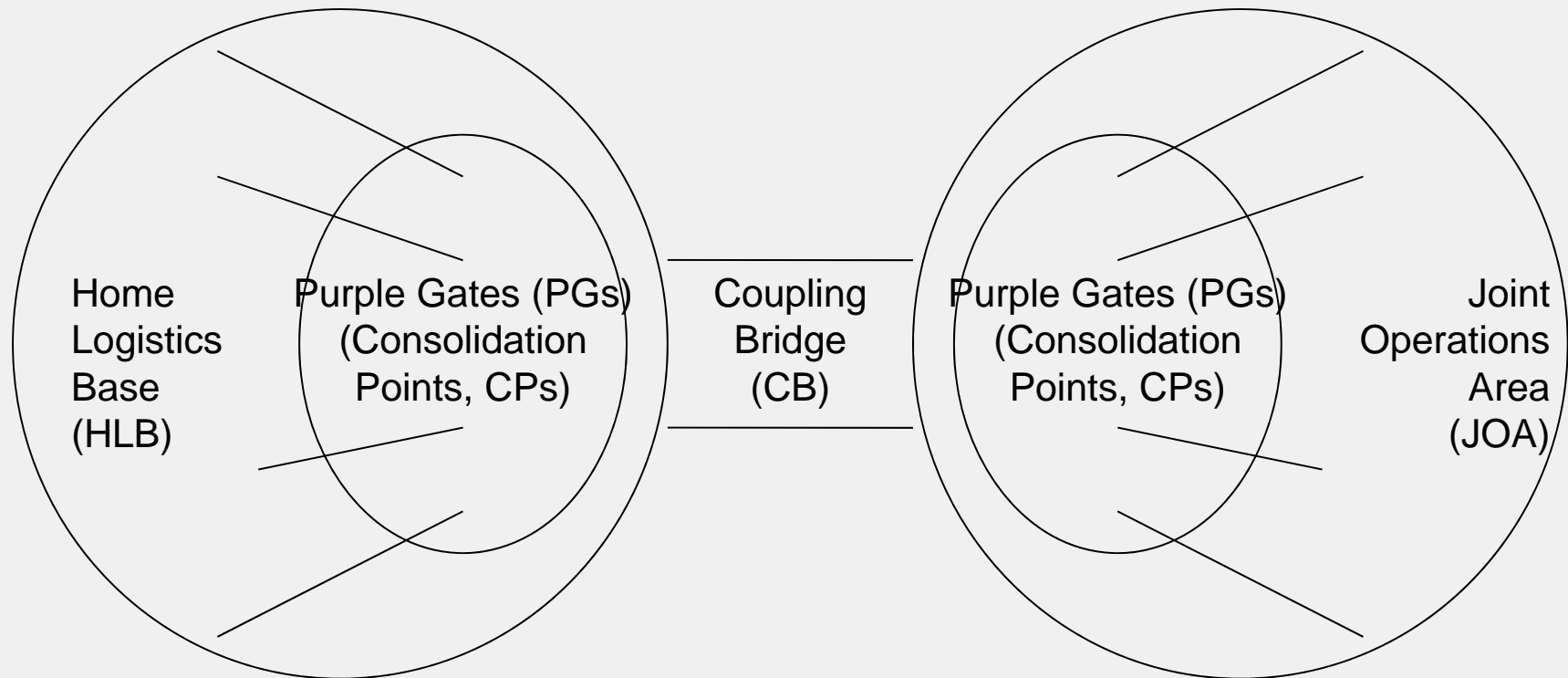
The Four Cases



The Four Cases (cont'd)

Case	Equipment	Support	Affected DLoDs	<i>Nota bene</i>	Contract period
C Vehicle	Acquisition of new equipment: Adapted COTS construction vehicles	Provision of consumable and repairable spares, maintenance and repair: CfA (C Vehicle)	Training, Equipment, Personnel, Information and Logistics	PFI; Reached Initial Gate in 1999	2006-2021
STSA	Acquisition of new equipment: MOTS aircraft for strategic airlift	Provision of consumable and repairable spares, maintenance and repair: CfA (C-17)	Training, Equipment, Personnel, Information and Logistics	Leasing; Interim, short term solution	2001-2008
HASP	No acquisition of equipment	Provision of consumable spares: CfA (CR2 MBT)	Equipment, Information and Logistics	Interim, short term solution	2009-2011
ADAPT	No acquisition of equipment	Provision of consumable and repairable spares, maintenance and repair: CfA (Rapier SAM)	Training, Equipment, Personnel, Information, Organisation, Infrastructure and Logistics	Permanent solution until OSD	2007-2020

The UK Joint Supply Chain



Major findings

- The Public Private Business Model (PPBM)
 - Generically useful for defence acquisition projects
 - Good for analysing strengths, weaknesses and risks
 - Good for identifying internal “misalignments” between building blocks
 - Good for comparing intended strategy with implemented strategy, i.e. for identifying external “misalignments”
 - Good for conducting consequence analyses (“what if”)
 - Enables comparisons between different defence acquisition projects through enhanced transparency and traceability

Major findings

- Performance Based Contracts
 - A potential “*definition problem*” (i.e. *what to measure*)
 - There are several definitions of what availability is (C Vehicle, STSA, HASP, ADAPT)
 - A potential “*measurement problem*” (i.e. *how to measure*)
 - It is not always clear when, where and how to measure availability
 - It is not always clear how contributions from different DLoDs should be measured (ADAPT)
 - A potential “*comparison problem*” (i.e. *with what to compare*)
 - It is not always clear with what availability should be compared at different points in time (e.g. now, mid-contract, end of contract)

Major findings

- Potential Misalignments
 - Between the JSC and private sector ownership
 - Between the JSC and risk transfer to the private sector
 - Between the JSC and CfAs for overseas operations
 - Between the JSC and reduction of delivery times
 - Between PBCs (CfAs) and traditional price agreements, i.e. Fixed-Price Contracts and Cost-Plus Contracts
 - Between Defence Acquisition practise and PPP theory

Summary

- Business Models can be adapted to the public sector
- The PPBM can be used to analyse past, present and future business models, deals and contracts in the area of defence acquisition
- The PPBM can be used to discover internal and external misalignments
- The PPBM can be used to identify and eradicate negative patterns and to identify and reinforce positive patterns

The Political Rhetoric



Questions?

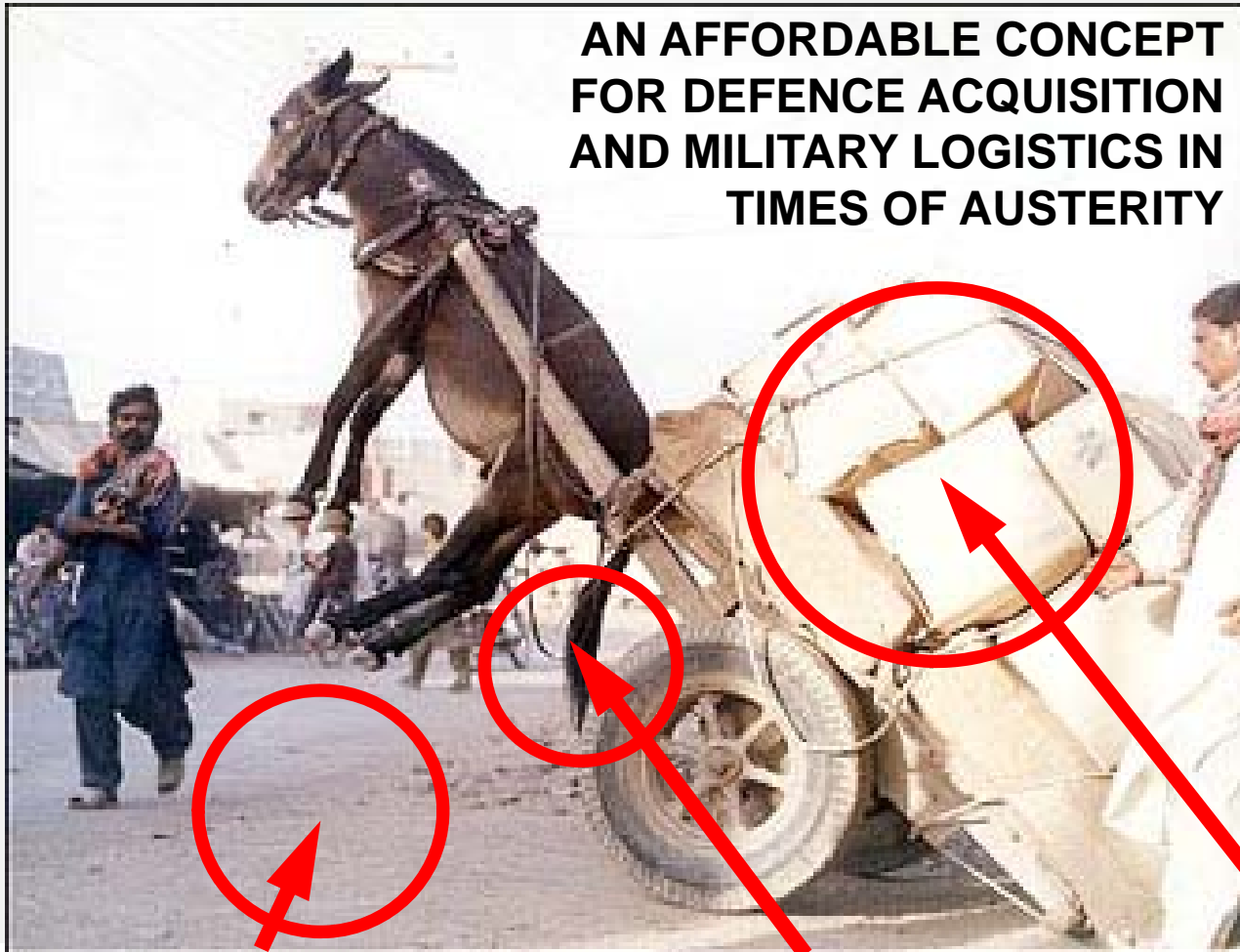
“ADEQUATE / REDUCED / OPTIMISED / MINIMISED
LOGISTICS FOOTPRINT / TAIL / BURDEN”

“FASTER, CHEAPER, BETTER”

Fast: No...
Good: No...
Cheap: Yes!

One out of
three! (Good
enough?)

**AN AFFORDABLE CONCEPT
FOR DEFENCE ACQUISITION
AND MILITARY LOGISTICS IN
TIMES OF AUSTERITY**



Eliminated logistics footprint, but the logistics tail and the logistics burden are still there!