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Lee, Donald M.; Chou, Lupei

Monterey, California. Naval Postgraduate School

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### **The Navy's Superior Supplier Incentive Program: Analysis of Supplier Proposed Benefits**

December 2015

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## ABSTRACT

The Department of Defense (DOD) launched the Superior Supplier Incentive Program in 2013 to adopt industry best practices on supply and supplier management and to explore opportunities to provide the high-performing defense contractors with benefits or reliefs that would reduce administrative burdens and streamline processes. The Department of the Navy provided an opportunity for its 2014 Superior Suppliers to submit white papers suggesting possible reliefs or benefits that would improve efficiency. This paper analyzes the 55 proposed benefits using three frameworks—Federal Acquisition Regulation (FAR) policy analysis, contract management process analysis, and risk-benefit analysis—to identify patterns or consistencies. The research reveals that FAR Part 42, Contract Management and Audit Services, and the contract management phase represent the most frustration for the Superior Suppliers. The results of the analysis can be used as a surrogate measure to identify potential improvements in the DOD’s current acquisition practices.



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**Naval Postgraduate School**

Disclaimer: The views represented in this report are those of the author and do not reflect the official policy position of the Navy, the Department of Defense, or the federal government.



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## LIST OF ACRONYMS AND ABBREVIATIONS

ANSI	American National Standards Institute
BBP	Better Buyer Power
CDRL	Contract Data Requirements Lists
CFT	Cross-Functional Team
CICA	Competition in Contracting Act
CLIN	Contract Line Item Number
CPARS	Contractor Performance Assessment Reporting System
CPFF	Cost Plus Fixed Fee
CPI	Contractor Performance Information
CPR	Cost Performance Report
CRM	Customer Relationship Management
CSDR	Cost Data Summary Report
CSR	Contract Status Review
DFAS	Defense Finance and Accounting Service
DASN(AL&M)	Deputy Assistant Secretary of the Navy for Acquisition and Logistics Management
DASN(AP)	Deputy Assistant Secretary of the Navy-Acquisition and Procurement
DAU	Defense Acquisition University
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DOD	Department of Defense
DON	Department of the Navy
ERP	Enterprise Resource Planning
EV	Earned Value
EVM	Earned Value Management
EVMS	Earned Value Management System
FAR	Federal Acquisition Regulation
FPIF	Fixed Price Incentive Firm
FMS	Foreign Military Sales



GAO	Government Accountability Office
IG	Inspector General
ISM	Institute for Supply Management
ISO	International Organization for Standardization
MDAP	Major Defense Acquisition Program Maritime
MHSCo	Helicopter Support Company Material
MRB	Review Board
MRP	Materials Requirements Planning
NAVAIR	U.S. Navy Naval Air Systems Command
NAVSEA	Naval Sea Systems Command
NCR	National Cash Register
OFPP	Office of Federal Procurement Policy
OUSD(AT&L)	Office of Under Secretary of Defense for Acquisition, Technology, and Logistics
PBL	Performance Based Logistics
PBP	Performance Based Payment
PPIRS	Past Performance Information Retrieval System
PSP	Preferred Supplier Program
QMS	Quality Management System
R&D	Research and Development
SLIN	Subline Item Number
SLM	Supply Line Management
SSIP	Superior Supplier Incentive Program
SWBS	System Work Breakdown Structure
TI	Technical Instruction
TINA	Truth in Negotiations Act
TQM	Total Quality Management
UCA	Undefinitized Contract Action
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics
VAR	Variance



# I. INTRODUCTION

## A. BACKGROUND

Firms in industry have a long history of leveraging high-performing suppliers to achieve competitiveness, increase profit, and gain efficiency. The firms achieve these favorable results through the implementation of effective supply management and supplier management programs. Effective supply management and supplier management focus on building trust and mutually beneficial partnerships between the buyers and sellers. The benefits include reducing uncertainties, risks, and production-related costs; building partnerships and trust; and creating success and a win-win outcome for both buyers and suppliers.

The Department of Defense (DOD) recognized the need to improve relationships with its defense contractors in order to achieve greater efficiency and better performance in DOD acquisition. In 2013, the DOD launched the Superior Supplier Incentive Program (SSIP), and in 2014, the DOD announced the first group of defense contractors selected for the SSIP. The Superior Supplier selection was based on contractor performance data from the Contractor Performance Assessment Reporting System (CPARS). The purpose of the SSIP is to provide recognition to high-performing defense contractors and increase competition among all defense contractors.

In 2014, nine first-tier Navy Superior Suppliers were given the opportunity to provide input to the Deputy Assistant Secretary of the Navy for Acquisition and Procurement (DASN [AP]) on the types of benefits to be implemented to increase efficiency and productivity in doing business with the DOD. According to the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]), the SSIP does not provide a direct competitive advantage or monetary incentives. The program is intended to provide first-tier Superior Suppliers with reliefs that streamline administrative burdens and eliminate non-value-added requirements for increased efficiency in DOD acquisition (Vergun, 2015).



Although the types of benefits the Superior Suppliers will receive under the SSIP are not yet clear, the program represents a step forward in building trust and improving relationships with defense contractors as well as the DOD's commitment to the Superior Suppliers.

## **B. PURPOSE OF RESEARCH**

The purpose of this research is to analyze the proposed benefits by the nine first-tier Navy Superior Suppliers of 2014 to identify patterns or consistencies in relation to Federal Acquisition Regulation (FAR) policy, contract management process, and risk-benefit analysis. Results from the analysis are used to identify any implications for SSIP and DOD contract management policy. Furthermore, the results from the analysis can open doors for further research on how DOD acquisition regulations and requirements can be changed or improved to allow greater efficiency within acceptable risk levels.

## **C. RESEARCH QUESTIONS**

The questions that are investigated in this research include the following:

1. How can the benefits proposed by the Superior Suppliers be analyzed to provide insight to Navy acquisition leadership?
2. What are the implications of the analysis of the Superior Suppliers' proposed benefits for DOD contract management policy?

## **D. BENEFITS AND LIMITATIONS**

For the first time, the DOD has implemented a policy at the department level to incentivize defense contractors to improve performance by offering benefits to selected Superior Suppliers. The analysis seeks to gain insights on the proposed benefits in terms of FAR policy, the contract management process, and risk-benefit analysis. The analysis also seeks to gain an understanding of challenges in the DOD acquisition process from the contractors' perspective. The results of the analysis can be used to identify the areas for potential improvement in the DOD's current acquisition practices.

The limitations of the research are the small sample size of defense contractors and that the source of data is limited to the Navy. First, the data consists of proposed



benefits from nine first-tier Superior Suppliers selected for the SSIP in the first year of program implementation. Second, this data only represents the Navy's Superior Suppliers. The SSIP is a DOD-wide program. The data analyzed focuses only on the Navy suppliers. Third, due to the nature of the SSIP, the data includes only a small number of large defense contractors. Last, since the SSIP is a new program, there is no historical data available for comparison. Based on these limitations, these proposed benefits and research findings do not fully represent all defense contractors, but only a limited number. The major assumption is that the research findings can be generalized to all DOD contractors.

## **E. METHODOLOGY**

This research begins with a thorough review of the literature on supply and supplier management and is presented in two parts. The first part includes a discussion of industry supply management and supplier management. It begins with a broad discussion of supply management and narrows down to supplier management and its four key elements: supplier selection, supplier performance appraisal, supplier certification, and supplier development (Carter & Choi, 2008, pp. 188–253). The second part of the literature review is a review of the DOD's efforts to incentivize contractors to improve performance by emulating industry best practices and implementing a series of initiatives, such as the Better Buyer Power (BBP) initiatives. This section also covers the development and implementation of the SSIP.

The Navy provided us with information concerning its Superior Suppliers and the proposed benefits. The data analysis reviews the proposed benefits of the Navy's nine first-tier Superior Suppliers of 2014. We obtained the sanitized list of proposed benefits from the DASN(AP); the list does not contain any company-specific identification information. We analyze the data using three frameworks: the Federal Acquisition Regulation (FAR) policy, contract management process, and risk-benefit analysis. The objectives of the analyses are to (a) determine if there are consistencies or patterns in the proposed benefits, (b) identify parts of the FAR and phases of the contract management process that present the most challenges for the Superior Suppliers, and (c) identify



potential low-risk and high-benefit proposals that yield the most value for both the government and Superior Suppliers.

## **F. ORGANIZATION OF REPORT**

The remainder of this report is organized as follows: Chapter II, the literature review, addresses supply and supplier management in industry and the DOD. The chapter also examines the benefits of supply management and supplier management to both buyers and sellers and introduces industry best practices. Additionally, it illustrates how the DOD adopted industry best practices to incentivize defense contractors to improve performance. Chapter III, which covers the methodology, explains the source, access, and analysis of the data. This chapter also discusses the three frameworks used for analyzing the data. Chapter IV includes the findings of the data analysis, discusses the implications of the results, and provides recommendations to Navy acquisition leadership. The last chapter, Chapter V, summarizes the research, answers the research questions, provides the authors' conclusions, and presents areas for future research.



## **II. LITERATURE REVIEW**

### **A. INTRODUCTION**

The literature review, which is presented in two parts, addresses the supply and supplier management programs of industry and the DOD. The first part focuses on industry supply and supplier management programs, specifically the definitions, benefits, development, and key elements of the programs. The second part is focused on the DOD's efforts to emulate industry's best practices of supplier management. This section specifically discusses the DOD's Superior Supplier Incentive Program (SSIP).

### **B. INDUSTRY SUPPLY MANAGEMENT**

This section of the literature review discusses industry supply management with a focus on supplier management. It covers (a) the definition of supply management; (b) the background, history, and evolution of supply management; (c) the benefits of supply management to buyers and suppliers; (d) supply base rationalization and optimization; and (e) key elements of supplier management.

#### **1. Supply Management Defined**

The Institute for Supply Management (ISM) defined supply management as “the identification, acquisition, access, positioning and management of resources and related capabilities the organization needs or potentially needs to attain its strategic objectives” (Carter & Choi, 2008, p. 2). It is a comprehensive approach that involves the management of the entire supply chain operation, which includes “disposition/investment recovery, distribution, inventory control, logistics, manufacturing supervision, materials management, packaging, product/services development, purchasing/procurement, quality, receiving, strategic sourcing, transportation/traffic/shipping and warehousing” (Carter & Choi, 2008, p. 10). Monczka, Handfield, Giunipero, and Patterson (2011) defined supply management as “a strategic approach to planning for and acquiring the organization's current and future needs through effectively managing the supply base, utilizing a process orientation in conjunction with cross-functional teams (CFTs) to achieve organizational





missions” (p. 11). Based on these definitions, successful firms treat supply management as a key consideration in their overall business strategy planning. Firms are more likely to achieve strategic success if they adopt a comprehensive approach and proactively engage in every aspect of the supply management programs.

Effective supply management programs are based on cooperative management of “inter-organizational relationships for the benefit of all parties involved and to maximize the efficient use of resources in achieving the organization’s customer-service goals” (Carter & Choi, 2008, p. 9). Therefore, supply management programs that benefit all participants are more likely to succeed. The next section discusses how supply management has evolved over time.

## **2. Evolution of Supply Management**

The field we call supply management today evolved from the purchasing and procurement function that was traditionally performed by a firm’s purchasing department. Beginning in the 1980s, firms have become increasingly aware of the strategic importance of supply management and recognized the negative aspects of the traditional purchasing and procurement approach to the buyer-supplier relationship and the need for a new supply management concept (Carter & Choi, 2008, pp. 2–3; Monczka et al., 2011, pp. 42–44).

Carter and Choi (2008) explained that the traditional purchasing and procurement function was “reactive and mechanical” because the purchase agents simply took orders from their customers, then followed the “well-delineated guidelines” to process these requirements (p. 2). Contrary to this traditional view, the new supply management concept is “proactive, strategic, and involved in a much broader spectrum of responsibilities” (Carter & Choi, 2008, p. 2). According to Rendon (2005), the traditional purchasing and procurement approach focused on obtaining the lowest possible price and, as a result, firms treated their suppliers as adversaries and kept them at an “arms-length distance” (p. 297). Additionally, “purchasing managers’ performance was measured based on their abilities to reduce the purchased price of supplies and services” (Rendon, 2005, p. 297).



These changes of market phenomenon and in buyer-supplier relationships were best explained by Kraljic (1983):

Threats of resource depletion and raw materials scarcity, political turbulence and government intervention in supply markets, intensified competition, and accelerating technological change have ended the days of no surprises. As dozens of companies have already learned, supply and demand patterns can be upset virtually overnight. (p. 109)

As a result, buying firms increasingly depend on reliable suppliers to provide uninterrupted and high quality material to support business success and profitability.

According to Liker and Choi (2004), “the 100 biggest U.S. manufacturers spent 48 cents out of every dollar of sales in 2002 to buy materials compared to 43 cents in 1996” (p. 104). The study suggests that “the issue isn’t whether companies should turn their arms-length relationships with suppliers into close partnerships, but how” (Liker & Choi, 2004, p. 106). Increasing dependence on supplier performance to determine business profitability forced buying firms to approach the buyer-supplier relationship differently. Long-term relationships with reliable suppliers became an important consideration. This change in relationship dynamic is reflected in the new supply management concept, which moves away from the adversarial approach and considers suppliers as “long-term partners” rather than “short-term, easy, expendable and replaceable sources of goods and services” (Carter & Choi, 2008, p. 2).

Japanese automakers Toyota and Honda created well-known success stories in managing buyer-supplier relationships to achieve strategic success. According to Liker and Choi (2004), the supplier *keiretsu*, “close-knit networks of vendors that continuously learn, improve, and prosper along with their parent companies” (p. 106), was the key element behind Toyota and Honda’s strategic successes. Under the supplier *keiretsu*, the automakers worked closely with the selected suppliers to achieve mutually beneficial objectives.

Toyota and Honda implemented the *keiretsu* model in their North American plants and achieved similar successes as in Japan. In a survey conducted in 2003 to measure buyer-supplier relations in the U.S. automobile industry, “Toyota and Honda



were rated as the most preferred companies to work with” (Liker & Choi, 2004, p. 106). They led in 17 categories, ranging from trust to perceived opportunity, and particularly, “suppliers said that Toyota and Honda were better communicators and that they were more trustworthy and more concerned about suppliers’ profitability” (Liker & Choi, 2004, pp. 106–107). Both automakers were also leaders in innovation and cost reduction; their vehicles were rated highest in initial quality and long-term durability (Liker & Choi, 2004, p. 107).

Examining the changes in buyer-supplier relationships over time and the experience of the Japanese automakers, we can conclude that successful firms invest in supply management and leverage suppliers to create greater successes. As explained by Kraljic (1983), “the greater the uncertainty of supplier relationship, technological developments, and/or physical availability of those items, the more important supply management becomes” (p. 110). Effective supply management leads to benefits for both buyers and suppliers. The next section of the chapter discusses the benefits of supply management.

### **3. Benefits of Supply Management**

Effective supply management brings benefits to both buyers and suppliers. Sheth and Sharma (1997) suggested four underlying reasons to establish long-term buyer-supplier relationships: “increased cost efficiency, increased effectiveness, enabling technologies, and increased competitiveness” (p. 95). Monczka et al. (2011) listed six benefits of supply management: increasing value and savings, building relationships and driving innovation, improving quality and reputation, reducing time to market, generating economic impact, and contributing to competitive advantage (pp. 8–10).

In the traditional purchasing and procurement relationship, there was a high level of uncertainty because buyers and sellers were motivated by self-gain. For example, the buyer’s goal was to obtain the lowest price, and the seller would lower the product quality standards to meet the low price target. To mitigate these defective behaviors, many controls needed to be put into place to ensure cooperative behavior and successful transactions. Control measures such as additional oversight requirements created



inefficiencies and costs: “controls increase cost and decrease the efficiency of relationships” (Sheth & Sharma 1997, p. 95).

The new supply management concept allows buyers to move away from the adversarial approach with sellers. Under this new concept, buyers seek to build long-term partnerships with sellers, and both parties work toward mutually beneficial objectives. Sheth and Sharma’s (1997) study found that “organizational buying is dramatically shifting from the transaction oriented to the relational oriented philosophy, and will shift from a buying process to a supplier relationship process” (p. 91). The shift in the buyer-seller relationship dynamic promotes business integration and encourages investments and innovation. It also increases competition because firms seek to lock in good suppliers to increase their competitive edge in the market.

Rendon and Templin’s (1992) study on the National Cash Register (NCR) Corporation demonstrated how supply management can benefit both buyers and sellers. NCR used the supply line management (SLM) strategy, which is based on “developing a limited number of ‘best-in-class’ suppliers as long-term partners. These selected suppliers become so thoroughly integrated into NCR’s research and development (R&D) and production process that they become extensions of NCR’s engineering and manufacturing functions” (Rendon & Templin, 1992, p. 20). Under the SLM arrangement, the buyer and sellers entered “a business rapport bound by obligation, investment, and community of interest—the purpose of which is to add (create) value” (Rendon & Templin, 1992, p. 20). The result was a win-win outcome for the buyer and suppliers. NCR benefited from “consolidating supplier base, decreasing supplier lead times, and cutting inventories” (Rendon & Templin, 1992, p. 24), while the suppliers benefitted from “increased business” (Rendon & Templin, 1992, p. 24), which allowed them to focus energy on “continuous process improvements and searching for additional ways to meet NCR’s supply needs” (Rendon & Templin, 1992, p. 24).

To remain profitable in the dynamic competitive market, firms must have sound business strategies supported by effective supply management. Effective supply management requires partnership with the right suppliers to ensure reliable resources and long-term performance of the organization. However, before an organization can



effectively establish a supplier management program, it must first determine how many suppliers it should maintain, a process called supply base rationalization or optimization. The next section discusses supply base rationalization and optimization.

#### 4. Supply Base Rationalization and Optimization

Supply base rationalization is “determining and maintaining the appropriate number of suppliers by item/category depending on the risk and value of the item/category” (Flynn, Harding, Lallatin, Pohlig, & Sturzl, 2006, p. 165). In general, the first step in supply base rationalization is the reduction in the number of suppliers by “[eliminating] both marginal and small-purchase-volume suppliers” (Monczka et al., 2011, p. 324). A study conducted by Sheth and Sharma (1997) suggested that many American firms went through supply base reduction in the 1990s. Figure 1 shows eight American firms’ reduction of suppliers.

Figure 1. Reduction in Number of Suppliers

Company	Number of Suppliers		Percentage Change
	Current	Previous	
Xerox	500	5,000	90.00
Motorola	3,000	10,000	70.00
Digital Equipment	3,000	9,000	66.66
General Motors	5,500	10,000	45.00
Ford Motor	1,000	1,800	44.44
Texas Instruments	14,000	22,000	36.36
Rainbird	380	520	26.92
Allied-Signal Aerospace	6,000	7,500	20.00

Source: Sheth, J. N., & Sharma, A. (1997). Supplier relationships: emerging issues and challenges. *Industrial Marketing Management*, 26(2), p. 95.

Following the initial reduction, the subsequent supply base optimization process replaces good suppliers with better suppliers or begins the supplier development process to improve supplier performance (Monczka et al., 2011, p. 324).



According to Monczka et al. (2011), “supply base rationalization and optimization should result in real improvement in cost, quality, delivery, and information sharing between buyer and supplier” (p. 324). However, supply base reduction is not free of risk. Some possible risks include supplier dependency, absence of competition, supply disruption, and overaggressive supply reduction (Monczka et al., 2011, pp. 326–328). Despite the risk, most scholars believe that supply base rationalization and optimization are necessary steps to achieve effective supplier management and development because managing a large supply base requires substantial energy and resources. According to Monczka et al. (2011), “supply base rationalization and optimization should be a continuous process” (p. 324). A firm should continue to assess the optimal number of suppliers based on market condition and risk level.

Once the supply base rationalization and optimization process is in place, a firm is able to approach its supplier management programs effectively. Supplier management provides guidance on how to select the right suppliers, evaluate supplier performance, and develop mutually beneficial relationships between buyers and suppliers. The next section discusses the four key elements of effective supplier management.

## **5. Key Elements of Supplier Management**

According to Carter and Choi (2008), “about 70 percent of the organizations that responded to an Aberdeen survey noted supplier performance as the key factor that critically affects their operational success” (p. 187). Thus, supplier performance has a direct impact on organizational performance. There are variations of supplier management programs. For the purpose of this paper, we focus our discussion on the Institute for Supply Management (ISM) supplier management model. The ISM is the oldest and most prominent professional association in supply chain management, and its model includes four key elements: supplier selection, supplier performance appraisal or evaluation, supplier certification, and supplier development.

### ***a. Supplier Selection***

Supplier selection determines which suppliers an organization would “establish a contract with and engage in a relationship” (Carter & Choi, 2008, pp. 188–190). It



determines the roles and responsibilities of suppliers and is believed to be the most important consideration in supplier management because it involves resource commitment. Supplier selection should consider eight major criteria: finances, consistency, relationship, flexibility, technological capability, service, reliability, and price (Carter & Choi, 2008, pp. 188–190).

Monczka et al. (2011) approached the supplier selection from the risk management perspective and argued that an effective supplier selection program is the key to risk management:

Those organizations that develop a holistic supplier management strategy not only are more likely to gain better insights into potential risk areas earlier than the competition, they are also more likely to reduce the probability of supplier financial and operational challenges disrupting their business. (p. 104)

According to Monczka et al. (2011), there are nine supplier selection criteria: price/cost competitiveness, product quality, delivery performance, financial condition, engineering and manufacturing technical competence, management of its own suppliers, management capability, ability to work with the customer, and potential for innovation (p. 104).

The two groups of scholars used different terms to describe the supplier selection criteria, but both addressed the two key considerations—past performance and future business prospects. Clearly, good past performance indicates low risk and high reliability. Suppliers with high technological capability, customer satisfaction, and managerial ability are desirable partners in future business growth. Table 1 is an example of selection criteria as outlined by the ISM (Carter & Choi, 2008, p. 190):



Table 1. Supplier Selection Criteria

	Selection Criteria
Finance	Financial conditions, profitability of supplier, financial records disclosure, performance awards
Consistency	Conformance quality, consistent delivery, quality philosophy, prompt response
Relationship	Long-term relationship, relationship closeness, communication openness, reputation for integrity
Flexibility	Product or service volume changes, short setup time, short delivery lead time, conflict resolution
Technological Capability	Design capability, technical capability
Service	After-sale support, sales representative's competence
Reliability	Incremental improvement product or service reliability
Price	Low initial price

Adapted from: Carter, J. R., & Choi, T. Y. (2008). *Foundation of supplier management*. Tempe, AZ: Institute for Supply Management, p. 190.

In general, firms have reduced the number of suppliers they maintain over the years. This reduction allows firms to focus on building relationships and trust with their selected suppliers, as well as invest more resources in supplier development. The implication is that “the supplier selected [will] become more integrated and enjoy [a] long-term relationship” (Carter & Choi, 2008, p. 189). The selected suppliers, however, must continue to perform and contribute to business growth after the initial selection to continue enjoying the business relationship and benefits. Firms manage supplier performance using established supplier performance appraisal or evaluation criteria. The next section discusses how firms use supplier performance appraisal to manage relationships with their suppliers.

***b. Supplier Performance Appraisal or Evaluation***

Supplier performance appraisal only applies to selected suppliers that pass an overall qualification process. The qualifying categories include customer





communication/customer relationship management (CRM), supply-chain mapping, quality systems, logistics systems, financial analysis, organization and management, and labor-management relationship (Carter & Choi, 2008, p. 194). The performance of the supplier is an important consideration to the buying firm because of its direct impact on product and service qualities. For example, the Ford Motor Company lost \$3 billion and caused an estimated 250 deaths because its supplier, Firestone, provided defective tires (Carter & Choi, 2008, p. 191).

The supplier performance appraisal requirements differ depending on the size of the firm and nature of the product. Large organizations with large numbers of suppliers do not evaluate all their suppliers. Developmental or complex products require more thorough evaluations than routine or standard products. There are different ways to evaluate supplier performance, but effective evaluations should include key criteria such as “capabilities and past performance in product design, commitment to quality, management capability and commitment, technical ability, cost performance, delivery performance, and the ability to develop process and product technology” (Monczka et al., 2011, p. 64). Table 2 is an example of evaluation factors and associated questions used in evaluating supplier performance.

Table 2. Evaluation Factors and Associated Questions

<b>Factors</b>	<b>Questions to Ask</b>
Capacity/Utilization	What is the maximum production or service capacity? How much of that capacity is currently being used?
Delivery	Does the supplier have sufficient facilities to deliver the required products or services on time? What is its inventory policy? Are there any back orders?
Quality	Is there evidence of a total quality management (TQM) philosophy? What evidence does the organization show in terms of quality leadership? Quality-assurance program? What are historical internal and external reject rates?
Make-Buy Program	Overall, how much of the supplier’s total cost of goods sold is coming from the supplier’s suppliers? How much of what is being purchased will come from those suppliers?



Factors	Questions to Ask
Cycle Time/Lead Time	What is the range of the cycle/lead times of comparable products? How would an advanced scheduling notice improve them?
Productivity	What is the supplier's present productivity? Given that productivity is defined as the ratio between output and input, what is the likelihood of increasing output by keeping the same input and decreasing input by keeping the same output?
Flexibility	How able and willing is this supplier to make changes? Last-minute changes? Does the supplier's leadership have an open and flexible attitude?
References	Which organizations does the supplier list as references? What are their positions in their respective markets? Will they be willing and able to provide information on this supplier?
Electronic Capabilities	Does the supplier have an enterprise resource planning (ERP) system? If so, what is it? If not, how will planning and communication take place? Can the supplier handle electronic data interchange (EDI) or e-commerce transactions?
Breadth of Product Line	Does the supplier have the ability to make multiple items? Provide a variety of services? Does it have a flexible manufacturing system? If so, how well is it using the technology?

Adapted from: Carter, J. R., & Choi, T. Y. (2008). *Foundation of supplier management*. Tempe, AZ: Institute for Supply Management, pp. 196—197.

According to Carter and Choi (2008), “the ultimate goal of performance evaluation is to make improvements and eliminate problems at the systems level rather than merely getting around a symptom of underlying problems” (p. 192). In order for the performance appraisal process to work effectively, suppliers must understand how they are being evaluated, where they stand, and how to improve. One of the most effective ways to communicate these ideas is to use a standardized evaluation process and establish supplier categories. The next section discusses the supplier certification process and supplier categories.



*c. Supplier Certification*

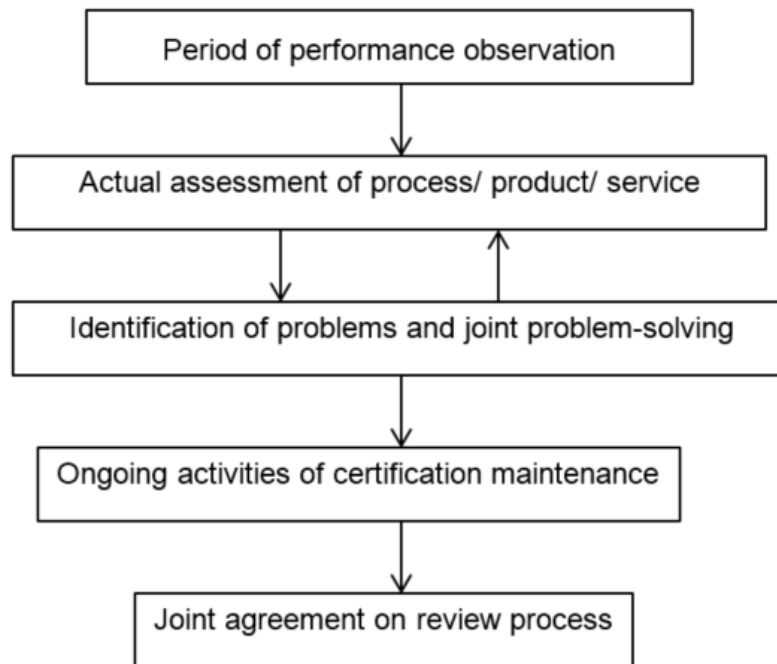
According to the ISM, “supplier certification is a way to determine whether a supplier has the basic ability to meet the buying organization’s needs for the goods or services that it supplies,” and the ultimate goal of supplier certification is to “create conformance and maintain control” (Carter & Choi, 2008, p. 200).

There are three types of supplier certification: (a) international organization initiated, such as the International Organization for Standardization (ISO) 9000, a quality-assurance program that focuses on total quality management; (b) industry-specific, such as QS 9000, a quality-assurance system that is specific to the automobile industry suppliers; and (c) organizational-specific, which is used by organizations for supplier management and development purposes. An example of organizational-specific supplier management programs is Boeing’s preferred-supplier certification program. Boeing suppliers are evaluated and given scores on the categories of cost, quality, product delivery, leadership, technology, and support. Suppliers selected as preferred suppliers enjoy the benefits of reduced inspection, industry recognition, and additional business opportunities (Carter & Choi, 2008, pp. 200–204).

There are typically two levels of supplier certification: organizational level and product level. Figure 2 shows a general process of supplier certification at the organizational level. Organizational level certification is performed by representatives from a supply management organization. The process involves communication, observation, collaboration, assessment, and continuous process improvement between the representative and the supplier. Typically, only certified suppliers can become certified at the product level or “parts-certified,” which focuses on the performance of specific parts (Carter & Choi, 2008, pp. 204–206).



Figure 2. Key Steps in Supplier Certification



Adapted from: Carter, J. R., & Choi, T. Y. (2008). *Foundation of supplier management*. Tempe, AZ: Institute for Supply Management, p. 206.

One way to manage suppliers effectively is to categorize the suppliers into different groups based on the results of the certification process or the suppliers' performance over time. Table 3 is an example of supplier categories (Carter & Choi, pp. 201–202).

Table 3. Supplier Categories

Category	Description
Approved	Suppliers that meet the supply management organization's selection criteria and have been added to the approved list.
Preferred	Suppliers that an organization has determined meet its expectations for quality, delivery and/or price and that are able to respond to unexpected changes
Partnered	Suppliers that have a close working relationship with the supply management organization in order to attain some advantages from each other in a positive way. A partnership in this context does not imply a legal relationship. Buyer-supplier partnerships may be of



Category	Description
	operational importance, such as a long-term, single-source relationship with an office supplier, or of strategic importance, such as a long-term, single-source relationship with a supplier of a product or service of strategic importance.
Certified	Suppliers with quality-control systems that have proved to be highly reliable, thus eliminating the need for incoming inspection.
Prequalified	Suppliers that are added to a supply management organization's approved list by passing its preliminary screening and selection criteria.
Certifiable	Suppliers that are not currently certified by the supply management organization but show strong evidence to become certified.
Disqualified	Individuals, companies or other organizations that fail to meet the standards established by a supply management organization and are barred from competing for that organization's business.
Debarred	Individuals, companies or other organizations that are suspended, usually on a temporary basis, from selling or otherwise doing business with a supply management organization.
Diverse	Suppliers that are selected to increase the diversity of a supply management organization's supply base.

Adapted from: Carter, J. R., & Choi, T. Y. (2008). *Foundation of supplier management*. Tempe, AZ: Institute for Supply Management, p. 202.

Supplier certification and supplier categories are used to increase managerial efficiency. High performing suppliers receive a higher level of trust and additional business opportunities. For suppliers that receive a less than desirable category rating, the supplier management organization may decide to develop these suppliers by assisting them with product or service improvement. The next section discusses the supplier development process and activities.

#### *d. Supplier Development*

Supplier development is “a systematic effort to create and maintain a network of competent suppliers, and to improve various supplier capabilities that are necessary for the supply management organization to meet its competitive challenges” (Flynn et al., 2006, p. 164). It is also defined as “any effort of a firm to increase performance and/or

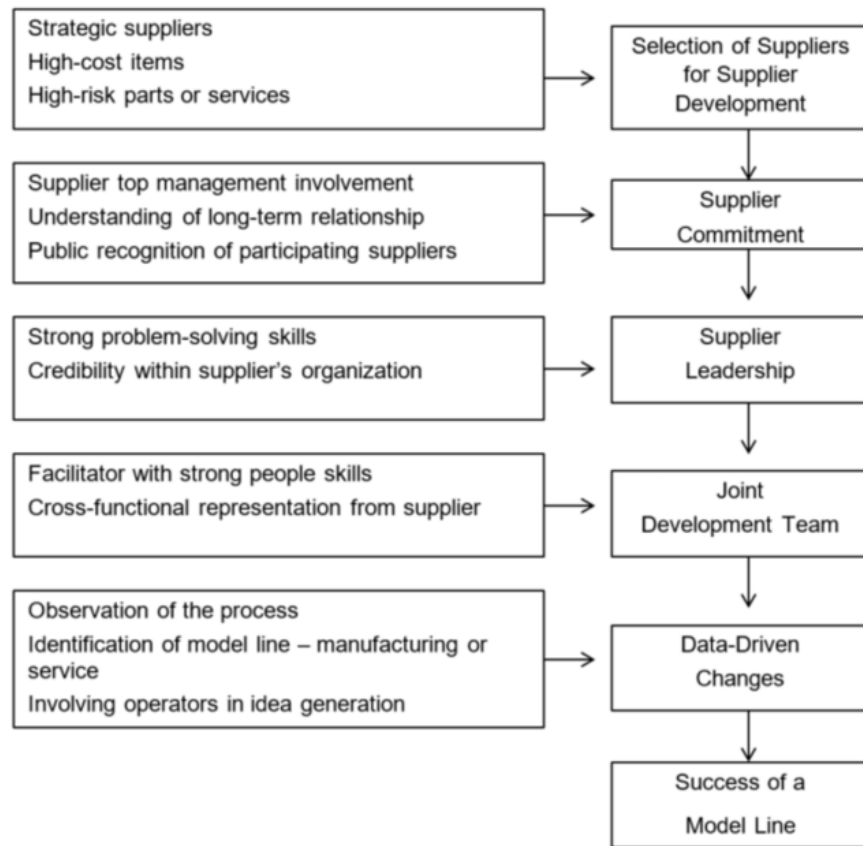


capabilities to meet the firm’s short and/or long term supply needs” and it can range from “limited efforts to extensive efforts” (Krause, 1997, p. 12).

According to the ISM, the key element in supplier development is the idea of continuous improvements that build on each other and eventually lead to significant improvement in performance (Carter & Choi, 2008, p, 208). Krause (1997) studied the supplier development activities of over 1,500 firms and concluded that the most effective supplier development is the “multi-pronged” approach. The multi-pronged approach is the combination use of forced competition, incentives, and direct involvement (Krause, 1997, p. 18). Some of the most well-known industry supplier development programs, such as enterprise resource planning (ERP), Lean Six Sigma, and materials requirements planning (MRP), include the key elements mentioned previously: continuous improvement, communication, direct involvement, and opportunities for mutual benefits. Figure 3 illustrates the supplier development process and required actions.



Figure 3. Supplier Development Process and Required Actions



Adapted from: Carter, J. R., & Choi, T. Y. (2008). *Foundation of supplier management*. Tempe, AZ: Institute for Supply Management, p. 210.

Firms often maintain a network of competent suppliers to meet day-to-day business requirements. However, in order to preserve a competitive edge, firms sometimes take more aggressive approaches to developing new capabilities and new suppliers, a process called reverse marketing. Reverse marketing is “an aggressive approach to developing a relationship with a supplier in which the buyer takes the initiative in making the proposal for the relationship and the specific business transaction” (Flynn et al., 2006, p. 150). The key difference between supplier development and reverse marketing is that “supplier development emphasizes the organization’s present suppliers and their present capability; reverse marketing focuses on new suppliers and new capabilities” (Carter & Choi, 2008, p. 211). Additionally, reverse marketing requires the firms to make a direct resource commitment in areas such

as financial, technical and strategic. Table 4 illustrates the differences between reverse marketing and supplier development practices.

Table 4. Comparison of Reverse Marketing and Supplier Development Practices

	<b>Reverse Marketing</b>	<b>Supplier Development</b>
Timeframe	Future	Present
Target Suppliers	Suppliers that are motivated but currently lack the capability to supply necessary parts or services	Suppliers that currently are supplying parts and services but will need to improve on quality and cost
Supply Management Commitment	Very high financial, technical, and strategic leadership commitment	Moderate technical assistance
Types of Involvement	Major improvement; drastic changes	Minor improvement; incremental changes
Degree of Partnership Commitment	Strategic partnership	Any type: basic, operational, business, or strategic partnership

Adapted from: Carter, J. R., & Choi, T. Y. (2008). *Foundation of supplier management*. Tempe, AZ: Institute for Supply Management, p. 212.

Supplier development is a strategic business decision to invest in suppliers to ensure long-term organizational competitiveness. Levels of involvement differ depending on market conditions, supplier capabilities, and technological requirements. The goal of supplier development is to create success and a win-win outcome for both buyers and suppliers.

This section of the literature review was focused on industry supply management, including its definition, background, and evolution, as well as the benefits of supply management. This section also discussed the idea of supplier rationalization and optimization and the four key elements of supplier management. The next section of this chapter introduces the DOD's effort to capture lessons learned and best practices from





industry on buyer-supplier relationship management. It includes an overview of the DOD-level initiatives implemented in the recent past and challenges faced. Then it discusses the DOD's latest effort to incentivize high performance through the implementation of the SSIP.

### **C. THE DOD'S SUPPLIER MANAGEMENT PROGRAMS**

This section of the literature review discusses the DOD's supplier management programs as reflected in the Navy's Superior Supplier Incentive Program (SSIP). This section of the literature review discusses the following: (a) the DOD's implementation of supplier management programs, (b) the background and history of the SSIP, (c) the Navy's SSIP, and (d) the Contractor Performance Assessment Reporting System (CPARS).

#### **1. The DOD's Implementation of Supplier Management Programs**

Industries have effectively leveraged their suppliers to create greater efficiencies and increase profit through supply management programs. Although the DOD is not a profit-driven entity, the DOD recognizes the importance of building relationships with its suppliers and motivating them to perform at a high level. Based on industry experiences, motivated suppliers contribute to increased productivity, reduced production-related costs, and reduced risk, thus creating a win-win outcome.

Suppliers in industry seek to obtain preferred supplier status with their buyer. The biggest incentive to achieve preferred supplier status in industry is to "receive the first opportunity for new business" (Monczka, et al., p. 62). However, the DOD's supplier management program cannot mirror industry's practices due to governing statutes that restrict the government from entering into an exclusive contracting relationship with defense contractors.

For example, the Competition in Contracting Act (CICA) and FAR 6.101, *Full and Open Competition*, state that the "contracting officer shall provide full and open competition through use of the competitive procedure(s)," thus restricting exclusive contractual relationships with defense contractors. As a result of this governing statute,



the DOD has limitations in incentivizing suppliers for the purpose of providing first business opportunities without competition. Thus, there are minimal incentives for DOD suppliers to perform at a high level when compared to industry.

Moreover, the DOD's SSIP can only emulate some parts of industry's supplier management programs. The SSIP is an attempt by the DOD to take the portion of industry's best practices that is applicable to the DOD and use it as a tool to motivate defense contractors to perform at a high level.

## **2. Background and History of the DOD's SSIP**

The DOD's first attempt to create a superior supplier incentive program was through the Navy's pilot program called the Preferred Supplier Program (PSP). The PSP then evolved to the SSIP as part of the DOD's Better Buying Power (BBP) initiatives. This section provides a brief background on how the DOD's supplier incentive programs evolved in the last five years.

### ***a. Preferred Supplier Program***

The PSP started in May 2010 to emulate the preferred supplier programs in industry. Although the PSP could not fully emulate the industry's successful supplier management programs, the Navy's intent was to recover opportunities lost by the "decentralized and individual contract approach" that is required by the DOD statutes and policies (Deputy Assistant Secretary of the Navy for Acquisition and Logistics Management [DASN(A&LM)], 2010, p. 28,788).

The basic concept of the PSP, as outlined in the *Federal Register* (DASN[A&LM], 2010), is that the preferred supplier status would be obtained through past performance reports using CPARS data. Those with preferred supplier status would not be guaranteed future contracts; however, they would have an opportunity to "receive more favorable contract terms and conditions" (DASN[A&LM], 2010, p. 28,788). The selection process and criteria of the PSP is discussed later in this chapter with the SSIP. In order to make the PSP successful, the Navy invited the public sector and industry representatives for input on the PSP. The Navy's goal was to develop the PSP into an



effective incentive program to motivate defense contractors. Appendix A lists the questions asked by the Navy to industry (DASN[A&LM], 2010, p. 28,789).

***b. Better Buying Power Initiatives***

Even with solicitation for input from both the public sectors and industry, the PSP was never implemented by the Navy. Nevertheless, the idea of incentivizing suppliers to deliver high performance and increase competition was supported by many DOD acquisition leaders, including the Under Secretary of Defense for Acquisition, Technology and Logistics (USD[AT&L]). The USD(AT&L), along with the Defense Acquisition University (DAU), developed initiatives to improve the DOD acquisition process, called the BBP (Woodruff, 2012, p. 2).

The BBP initiative was introduced in June 28, 2010, with the theme, “Mandate for Restoring Affordability and Productivity in Defense Spending.” According to the BBP website, “The BBP is the implementation of best practices to strengthen the Defense Department’s buying power, improve industry productivity, and provide an affordable, value-added military capability to the Warfighter” (DOD, n.d., para. 1). The BBP identified 16 best practices to improve efficiency, and the Navy’s PSP was included. As a result, the Navy’s PSP was reintroduced at the DOD level as an initiative to reward excellent suppliers. However, while the BBP memorandum included a mandate “to emulate the Navy’s PSP” (OUSD[AT&L], 2010, p. 5), it did not provide any information on how to implement such a program. For unknown reasons, the Navy’s PSP and the excellent supplier reward initiative under the BBP were never implemented by any service.

Two years after the introduction of the BBP initiative, the USD(AT&L) introduced the BBP 2.0, a second version of the BBP, with the theme “Continuing the Pursuit of Greater Efficiency and Productivity in Defense Spending” (OUSD[AT&L], 2013). The BBP 2.0 best practices encompassed 36 initiatives organized in seven focus areas. In the BBP 2.0, the Navy was assigned to develop a pilot program to incentivize contractors for the DOD. An initiative to implement the PSP remained one of the focus areas under a different name, the SSIP. From this point forward, preferred suppliers



would be called Superior Suppliers and the PSP would be the SSIP in accordance with the BBP 2.0. The DOD's continuing effort to incentivize defense contractors for high performance was evident with the introduction of the SSIP; however, program implementation has remained a challenge as the DOD must overcome many statutes, regulations, and policies restrictions.

It took almost a year for the SSIP to take another step forward. On June 13, 2014, the Navy announced the first list of Superior Suppliers. The Navy's Superior Suppliers list was organized into three tiers. However, only the first-tier companies have an opportunity to negotiate benefits that may provide cost savings for the company. The following is the list of the Navy's first-tier Superior Suppliers of 2014:

- General Dynamics Combat Systems
- General Dynamics Marine Systems
- General Electric Aviation
- Lockheed Mission Systems and Training
- MHSCo Sikorsky Lockheed Partnership
- Northrop Grumman Aerospace Systems
- Raytheon Integrated Defense Systems
- Raytheon Intelligence, Information and Services
- Rolls-Royce Defense Aerospace (Jayakumar, 2014).

The USD(AT&L) published the third iteration of the BBP, the BBP 3.0, "Achieving Dominant Capabilities through Technical Excellence and Innovation," on April 9, 2015. Every initiative not implemented previously was introduced again with stronger emphasis in the new iteration. The SSIP was no exception. In the BBP 3.0, the USD(AT&L) directed each service to develop a service-specific SSIP in order to provide flexibility to the SSIP that is better suited for each service (OUSD[AT&L], 2015). The SSIP is a relatively new initiative for all services. However, the Navy's SSIP is the most mature incentive program within the DOD because of its experience with the PSP. The next section discusses the Navy's SSIP.



### 3. The Navy's SSIP

The Navy's SSIP is a revised program from its initial pilot program, the PSP. The concept of SSIP's rating criteria, evaluating method, and possible benefits are similar to the PSP. In this section, we discuss the Navy's SSIP focus on the rating criteria, evaluation method, possible benefits, and CPARS.

#### a. Rating Criteria

The SSIP assessment is based on contractor past performance information using the CPARS data and "other sources of data, including information available to the Navy's program offices and government contract administration organizations" (DASN[AP], 2013, p. 21,117) that can supplement the CPARS data. The evaluation uses three years of CPARS data. The performance rating of the most recent year carries more weight than the previous two years. The rating is based on a five-star system using the CPARS color rating as shown in Table 5. At minimum, the following seven areas are being assessed: technical (quality of product), schedule, cost control, management responsiveness, management of key personnel, utilization of small business, and other CPARS factors as appropriate (DASN[AP], 2013). At least a three-star rating is required to obtain Superior Supplier status, while a five-star rating can be only obtained by having an active energy efficiency program.

Table 5. SSIP Conversion Table

SSIP Conversion table	
CPARS color rating	Number of stars
Red	0
Yellow	1
Green	2
Purple	3
Dark Blue	4

Adapted from: Deputy Assistant Secretary of the Navy for Acquisition and Procurement (DASN[AP]). (2013, April). Superior Supplier Incentive Program (FR Doc. 2013-08190). *Federal Register*, 78(68), p. 21,117.



**b. Evaluation Method**

The *Federal Register* dated April 9, 2013, explains the evaluation process for the Navy's pilot SSIP:

DON intends to evaluate the top 15 DON contractors that supply goods and the top 15 DON contractors that supply services. The top 15 DON contractors will be determined by the value of contract awards for the most recent fiscal year at the business unit level. A business unit can only be rated in either the goods or services category. In the event a contractor is within the top 15 suppliers of both goods and services, it will be evaluated in the category that represents the preponderance of sales to the DON. (DASN[AP], 2013, p. 21117)

The Deputy Assistant Secretary of the Navy-Acquisition and Procurement (DASN[AP]) will oversee the evaluation of Superior Supplier designation by teams consisting of the Department of the Navy's (DON) Echelon II contracting activities. Each team will evaluate contractors "based on the volume of contracting activity between a contractor under evaluation and a particular contracting activity" (DASN[AP], 2013, p. 21117). Once selected by the teams, the DASN(AP) will make final recommendations to a panel of senior DON leaders. The panel will include the Assistant Secretary of the Navy for Research, Development and Acquisition (ASN[RD&A]) and may include the Vice Chief of Naval Operations, the Assistant Commandant of the Marine Corps, and Commander, Fleet Forces Command (DASN[AP], 2013).

**c. SSIP Benefits**

The benefit of being selected as one of the Navy's Superior Suppliers does not guarantee automatic contract award by the Navy. Instead, the contractors with Superior Supplier status may receive more favorable contract terms and conditions in future DON contracts. Some examples of the favorable contract terms and conditions as outlined in the April 9, 2013, *Federal Register* are

- More favorable progress payments. Adjustments may be made to progress payment percentages or retention percentages.
- Priority for adjudication of final labor and indirect cost rates.



- Increase in the intervals between business system reviews. (DASN[AP], 2013)

Multi-unit corporations with multiple business units selected as Superior Suppliers may receive additional recognition from the DON. This additional recognition will not be in favorable contract terms and conditions, but rather “favorable business practices by the DON in its relations at the corporate level” (DASN[AP], 2013, p. 21116).

To understand the SSIP evaluation process for selecting Superior Suppliers, understanding the CPARS is very important. The next section discusses the CPARS process.

#### ***d. Contractor Performance Assessment Reporting System***

The CPARS is a web-based application designed to be used to record government contractors’ performance information based on the “objective facts and supported by the program and contract management data” (DPAP, 2015). FAR 42.15 requires collection of CPARS data, and FAR Part 15 requires the use of CPARS data as one of the source selection criteria for awarding contracts for the purpose of ensuring that “current, complete, and accurate information on contractor performance is available for use in procurement source selection” (DOD, 2014, p. 1). In 2009, the administrator of the Office of Federal Procurement Policy (OFPP) identified the CPARS as the federal government-wide “solution for collection of contractor performance information” (DOD, 2014, p. vii). Furthermore, the OFPP’s memorandum dated January 21, 2011, recommended consolidation of contractor performance recording systems into a single recording system, the CPARS (DOD, 2014, p. vii). Based on these directives, using CPARS data to evaluate contractors’ past performance for the SSIP selection is consistent with current policy.

FAR 42.15 requires Contractor Performance Information (CPI) to be filled out on all contracts exceeding the simplified acquisition threshold (DOD, 2014, p. 4), and the contracting officer, contracting officer representative, and product/program manager are responsible for accurate data entry into the CPARS. FAR 42.15 defines CPI as relevant





information used for future source selection purposes on a contractor’s actions assessed from previously awarded contracts, including the ratings and supporting narratives (2015). Although the CPARS does not assess subcontractors, the prime contractor’s ability to manage subcontractors effectively should be included in the overall assessment of the contractor performance.

Generally, the contractors are rated on six evaluation areas: (a) quality, (b) schedule, (c) cost control, (d) management, (e) utilization of business, and (f) regulatory compliance (DOD, 2014, p. 22). Assessments of contractor performance are categorized into five ratings, which are followed by their narrative explanations. Table 6 illustrates the CPARS ratings criteria.

Table 6. CPARS Ratings

Rating	Definition
Exceptional	Performance meets contractual requirements and exceeds many to the government’s benefit. The contractual performance of the element or sub-element being evaluated was accomplished with few minor problems for which corrective actions taken by the contractor were highly effective.
Very Good	Performance meets contractual requirements and exceeds some to the government’s benefit. The contractual performance of the element or sub-element being evaluated was accomplished with some minor problems for which corrective actions taken by the contractor were effective.
Satisfactory	Performance meets contractual requirements. The contractual performance of the element or sub-element contains some minor problems for which corrective actions taken by the contractor appear or were satisfactory.
Marginal	Performance does not meet some contractual requirements. The contractual performance of the element or sub-element being evaluated reflects a serious problem for which the contractor has not yet identified corrective actions. The contractor’s proposed actions appear only marginally effective or were not fully implemented.
Unsatisfactory	Performance does not meet most contractual requirements, and recovery is not likely in a timely manner. The contractual performance of the element or sub-element contains a serious problem(s) for which the contractor’s corrective actions appear or were ineffective.

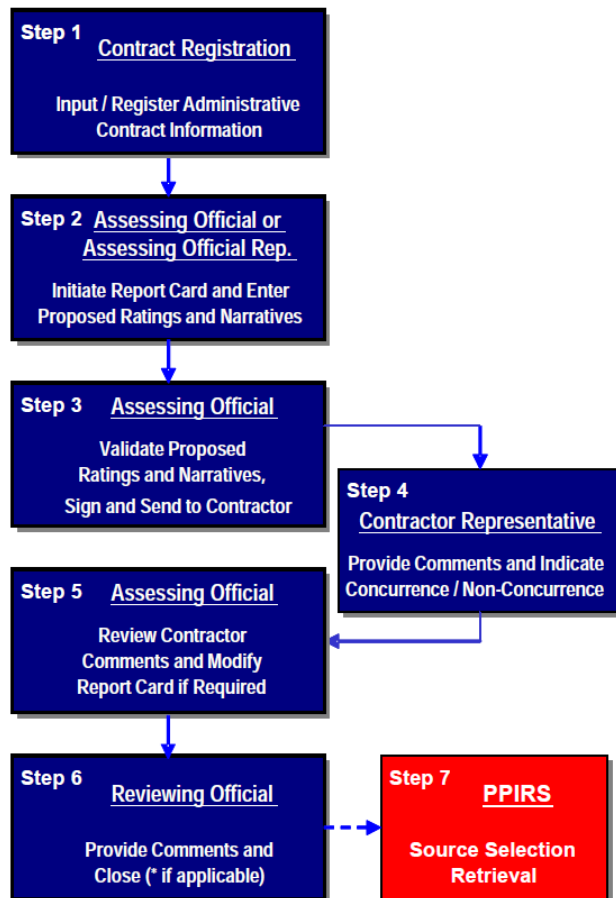
Adapted from: Department of Defense (DOD). (2014). *Guidance for the Contractor Performance Assessment Reporting System (CPARS)*. Washington, DC: Author, p. A2–1.





The FAR requires the CPARS evaluation to be completed within 120 days following the end of the performance period (DASN[AP], 2013). All completed CPARS information feeds into the Past Performance Information Retrieval System (PPIRS), a “single, authorized application to retrieve contractor information” (DOD, 2014, p. 4), which is stored to be used for source selection purposes. Figure 4 illustrates the basic CPARS workflow.

Figure 4. Basic CPARS Workflow



Source: Naval Sea Logistics Center Portsmouth. (2013, September). Contractor Performance Assessment Reporting System. Retrieved from [https://www.cpars.gov/pdfs/CPARS\\_Brochure.pdf](https://www.cpars.gov/pdfs/CPARS_Brochure.pdf)



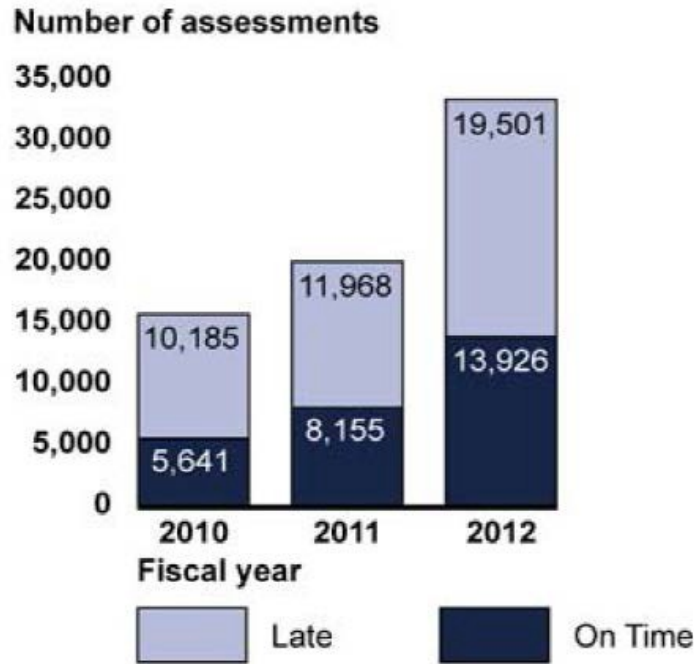
Using CPARS data to evaluate contractors' past performance is the DOD's mandatory evaluation method; however, the CPARS and the PPIRS data have numerous flaws. According to a DOD Inspector General (DOD IG, 2008) report, the DOD CPARS did not contain all active contracts over \$5 million. Moreover, 39 percent of the contracts in the CPARS were registered more than a year late, 68 percent of the performance reports were overdue, and 82 percent of the past performance report did not contain sufficient narrative assessments to determine the creditable performance ratings. Thus, the DOD did not possess all the necessary performance data to make informed decisions on market research, contract award, and other acquisition matters (DOD IG, 2008).

In 2009, a Government Accountability Office (GAO) report found that DOD contracting officials did not use contractors' past performance as one of their factors in awarding contracts due to uncertainty in the reliability of past performance data in the PPIRS. Only a small percentage of the PPIRS data from 2006 to 2007 contained performance assessment, while useful key contracting decisions such as termination for default was not in the system. Additionally, lack of standard rating factors across the agencies made the PPIRS data even less reliable (GAO, 2009).

To improve the DOD's contractor past performance reporting, the DOD implemented additional training to the acquisition workforce and provided oversight to track reporting requirements. As a result of the additional enforcement, submission of required assessment reports increased from 56 to 74 percent from October 2011 to April 2013. However, even with improvements, the DOD still needs to improve on timely submission of assessment reports (GAO, 2013). Figure 5 shows the timeliness of DOD contractor performance assessments in fiscal years 2010 to 2012.



Figure 5. DOD Contractor Performance Assessment Timeliness



Source: General Accounting Office (GAO). (2013). *Contractor performance: Actions taken to improve reporting of past performance information* (GAO-13-589). Washington, DC: Author, p. 10.

A 2014 GAO report found that the OFPP’s strategy to improve contractor performance assessment reporting improved the overall compliance level. The OFPP and the FAR Council added additional requirements, such as assigning responsibility and accountability, implementing standards for completing evaluations and ensuring submitted assessments are consistent with the award fee evaluation. Although the study found the improvement encouraging, shortage in workforce and competing priorities may have prevented better results (GAO, 2014).

According to research conducted by Black, Henley, and Clute in 2014, the CPARS data contains narrative ratings that are not consistent with objective scores. When the narrative rating and the objective scores do not match, the narrative ratings are generally weighed more than the objective scores (Black et al., 2014, p. 63). This research revealed the inconsistency of contractor performance data in the CPARS, which is used to evaluate the source selection decision.



The DOD is continuing to emphasize the importance of timely and accurate contractor performance assessment in the CPARS, but the improvement is slow. Even with deficiencies, the CPARS is the DOD's solution to track contractors' performance assessments in a centralized system.

#### **D. SUMMARY**

High performing firms in industry have a long history of leveraging supplier management programs to achieve organizational objectives and maintain a competitive edge in the market. The first part of this chapter provided an overview on industry supplier management programs, background and evolution, key elements of effective programs, and some best practice examples. The literature also suggests that future business certainty, trust, good communication, and prospects for a win-win outcome are the foundation for establishing mutually beneficial relationships.

The second part of this chapter discussed the DOD's decision to emulate industry's supplier management program best practices. It provided an overview of the initiatives implemented over the years and discussed the DOD's effort to improve the acquisition process. The literature suggests that due to statutes, regulations and policies, the DOD only has limited options to incentivize suppliers and is unable to provide the same level of benefits as industry.

The literature review provides a contextual understanding of the requirements and key elements of effective supplier management programs and explains the limitations in the DOD's implementation of its supplier incentive programs. This chapter established the foundation for our research, which is focused on analyzing the Navy's Superior Suppliers' proposed benefits. The next chapter discusses the methodology used in our research.



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### **III. METHODOLOGY**

#### **A. INTRODUCTION**

This chapter provides an overview of the methodology used for this research. It discusses the source of the data and the three frameworks used to analyze the data. The frameworks consist of a Federal Acquisition Regulation (FAR) policy analysis, contract management process analysis, and risk-benefit analysis.

#### **B. SOURCE OF DATA**

The DOD announced the Superior Supplier Incentive Program (SSIP) in 2014, which was followed by the announcement of the Navy's choice for the first group of Superior Suppliers on June 13, 2014. Following the Navy's selection of Superior Suppliers, the Deputy Assistant Secretary of the Navy-Acquisition and Procurement (DASN[AP]) held the SSIP kickoff meeting with nine first-tier Superior Suppliers on October 24, 2014. The purpose of the kickoff meeting was to allow first-tier Superior Suppliers an opportunity to identify contract terms and conditions that increased cost or impaired performance that could be removed without increasing significant risk to the government (DASN[AP], 2013). We refer to these as "proposed benefits."

The ideas were to be parsed into four categories: (a) changes that only affect Navy contracts, (b) changes that only affect the Navy policy or practice, (c) changes to contracts that affect a multi-service plant, and (d) changes that affect DOD policies or practices (DASN(AP), 2014). First-tier Superior Suppliers provided their proposed ideas between December 2014 and January 2015, focusing mostly on requesting benefits from the non-value-added burden imposed by current statutes or regulations.

For the purpose of this research, we obtained the sanitized proposed benefits from the DASN(AP), none of which contained any company-specific identification information. To identify any patterns and consistencies in the 55 proposed benefits, we used three different frameworks, each of which is described in detail in the following subsections.



## **C. ACQUISITION FRAMEWORKS**

Our analysis is based on three frameworks: a FAR policy analysis, a contract management process analysis, and a risk-benefit analysis. First, we sought to determine which federal acquisition policies would be affected if the proposed benefits were implemented by matching the proposed benefits to their relevant FAR Part(s). Similarly, the second analysis assesses which phase of the contract management process would be affected if proposed benefits were granted by matching the proposed benefits to their relevant contracting phase(s). Finally, we performed a risk-benefit analysis to determine which proposed benefits provide the lowest degree of risk to the government while simultaneously providing the highest degree of benefit to the Superior Suppliers. These frameworks were selected for our data analysis because they are fundamental to understanding how the proposed benefits affect federal contracting regulations and the Navy's contract management policies. We provide additional details for each analysis in the following sections.

### **1. FAR Policy Analysis**

The FAR is the regulatory base for all federal acquisition and contract management: “The Federal Acquisition Regulations System is established for the codification and publication of uniform policies and procedures for acquisition by all executive agencies” (FAR 1.101). The FAR policy analysis matched proposed benefits to their relevant policies to assess which federal acquisition policies might be affected if proposed benefits were granted. The purpose of this analysis is to identify any patterns or consistencies in order to highlight regulations that our Superior Suppliers find particularly burdensome. Based on our findings, we ranked the FAR policies with the most proposed benefits to FAR policies with the least proposed benefits. The results provide insight to Navy acquisition leadership regarding FAR policies that cause the most concern to the Superior Suppliers.

### **2. Contract Management Process**

The six phases of the contract management process are used in industry and government as a roadmap to guide organizational leaders and acquisition professionals



through the complex contracting process. According to Garrett (2007), the contract management process is “the art and science of managing a contractual agreement(s) throughout the contracting process” (p. 390). The six phases of contract management process are as follows:

(a) Procurement Planning, “the process of identifying which business needs can be best met by procuring products or services outside the organization;

(b) Solicitation Planning, “the preparation of the documents needed to support a solicitation”;

(c) Solicitation, “a process through which a buyer requests, bids, quotes, tenders or proposes orally, in writing, electronically”;

(d) Source Selection, “the process by which the buyer evaluates offers, selects a seller, negotiates terms and conditions, and awards the contract”;

(e) Contract Administration, “the process of ensuing compliance with contractual terms and conditions during contract performance up to contract closeout or termination” and

(f) Contract Closeout or Termination, “the process of verifying that all administrative matters are concluded on a contract that is otherwise physically complete” or “an action taken pursuant to a contract clause in which the buyer unilaterally ends all or parts of the work” (Garrett, 2007, pp. 390-407).

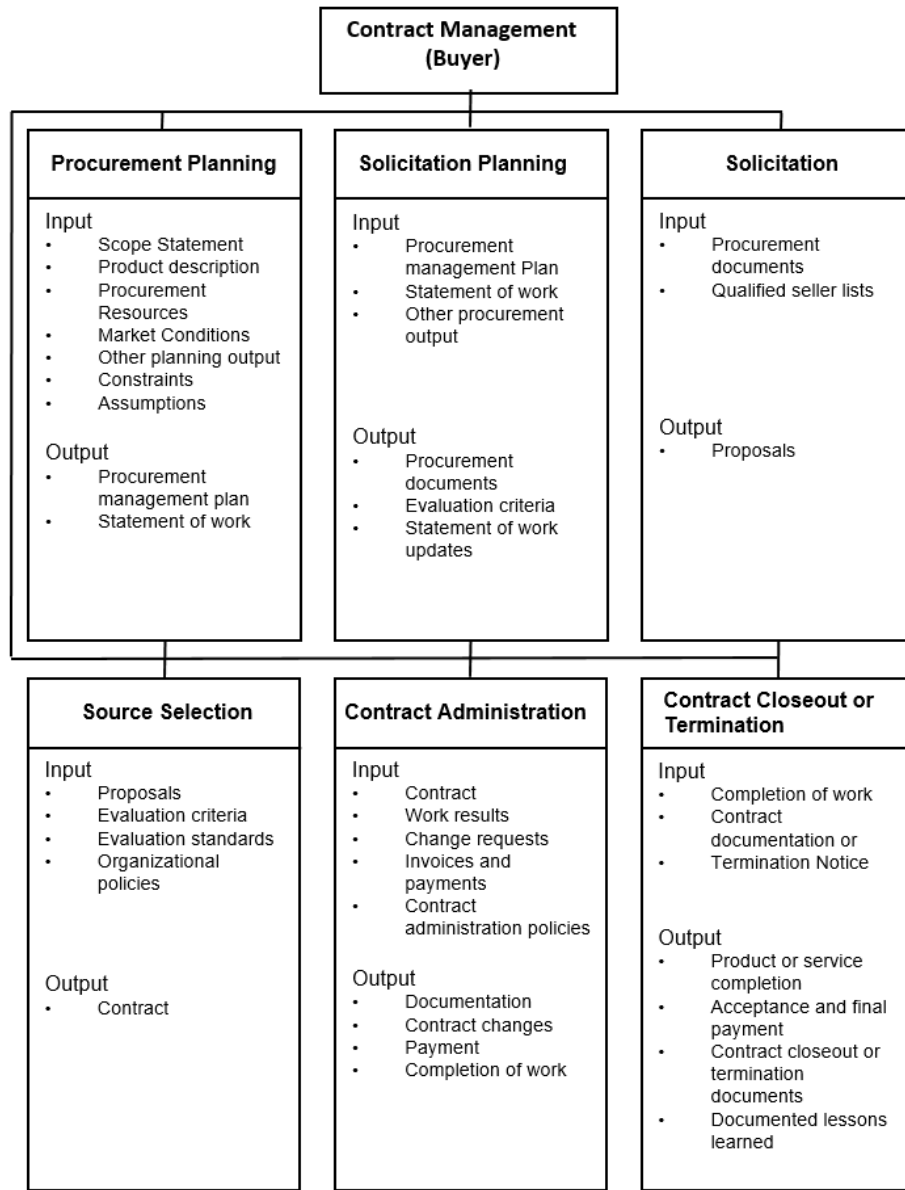
It is important to understand the inter-relationships between each phase and how each phase fits into the overall contract management process. Figure 6 demonstrates the specific inputs and outputs required for each phase of the contract management process.

For this analysis, we matched the proposed benefits to their relevant contract management phase(s). The purpose of this analysis is to identify any patterns or consistencies in the data in order to identify the contract management phases that are causing the most concern to the Superior Suppliers.





Figure 6. Contract Management Process: Buyer's Steps



Adapted from: Garrett, G. A. (2007). *World class contracting (4th ed.)*. Riverwoods, IL: Wolters Kluwer Law & Business, p. 21.

### 3. Risk-Benefit Analysis

The risk-benefit analysis seeks to understand the risk-benefit tradeoff of each of the 55 proposed benefits. Many acquisition statutes and regulations are in place to reduce risk to the government. If the DOD decides to provide the proposed benefits to the Superior Suppliers, the associated risks to the government may increase. The purpose of



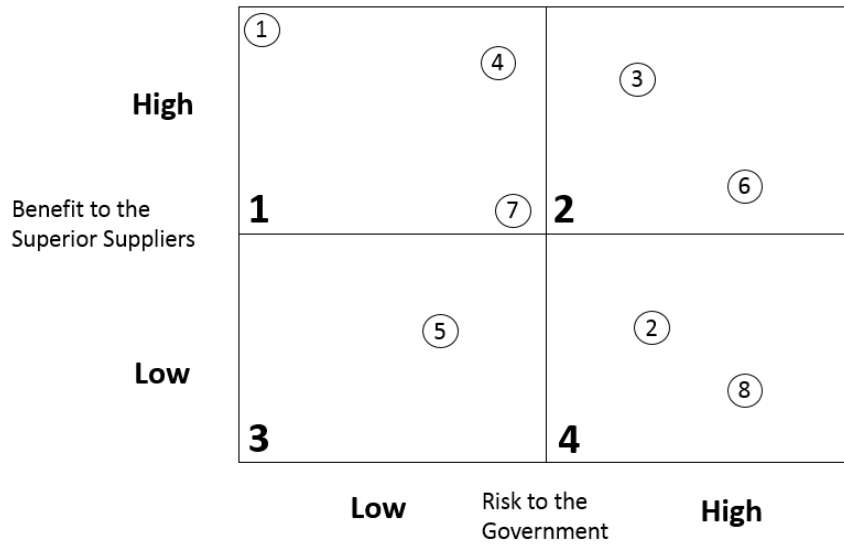
this analysis is to examine and understand the level of risk to the government and the level of benefit to the Superior Suppliers, should the benefits be granted. For this analysis, we assigned risk ratings and benefit ratings (along with justifications for those ratings) to each proposed benefit. Then we plotted the ratings on a 2x2 risk-benefit analysis matrix in order to determine which proposed benefits presented the least risk to the government and the highest benefit to the Superior Suppliers.

The risk-benefit analysis matrix is divided into four quadrants. Quadrant one represents proposed benefits with low risk to the government and high benefit to the Superior Suppliers. Quadrant two represents proposed benefits with high risk to the government and high benefit to the Superior Suppliers. Quadrant three contains proposed benefits that are low risk to the government and low benefit to the Superior Suppliers. Finally, quadrant four consists of proposed benefits that are high risk to the government and low benefit to the Superior Suppliers.

This risk-benefit analysis matrix provides Navy acquisition leadership a prioritization schema for implementing the proposed benefits. For a proposed benefit to be considered, it should meet two conditions: substantial benefit to the Superior Suppliers and tolerable risk to the government. For example, the proposed benefits that fall into the low-risk, high-benefit quadrant would presumably be first priority items, while those that fall into the high-risk, low-benefit quadrant would be last priority items. Figure 6 is an example of the Risk-Benefit Analysis Matrix.



Figure 7. Example Risk-Benefit Analysis Matrix



**D. SUMMARY**

This chapter presented an overview of the methods used for analyzing the Navy’s Superior Suppliers’ proposed benefits using three frameworks: FAR policy analysis, contract management process analysis, and risk-benefit analysis. The purpose of the first two analyses is to reveal which FAR policies and phase(s) of the contract management process would be most affected if the proposed benefits were granted. The purpose of the last analysis is to determine the priority for implementation of the proposed benefits by examining the anticipated risk to the government and benefit to the Superior Suppliers. The next chapter discusses the findings of each analysis.

## **IV. ANALYSIS AND FINDINGS**

### **A. INTRODUCTION**

The purpose of this chapter is to present the results and findings of three analyses. The chapter begins with a presentation of the primary data received from DASN(AP) and discusses patterns or consistencies identified by applying the analyses described in Chapter III. This discussion focuses on (a) parts of the FAR that present the most burdens for the Superior Suppliers, (b) phases of the contract management process that present the most challenges for the contractors, and (c) low risk-high benefit proposed benefits with potential to yield the most value for both the government and Superior Suppliers. The second section answers the research questions and discusses implications.

### **B. DATA ANALYSIS AND FINDINGS**

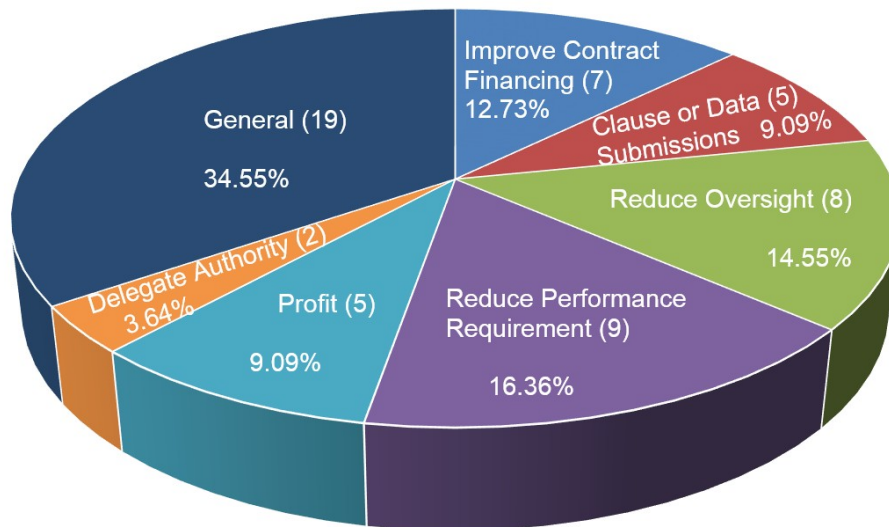
Data analysis and findings are presented in the following order: overview of the primary data, FAR policy analysis, contract management process analysis, and risk-benefit analysis.

#### **1. Overview of the Primary Data**

This section provides a basic analysis of the primary data received from the DASN(AP). The sanitized list of 55 proposed benefits from the Navy's first-tier Superior Suppliers of 2014 was obtained from the DASN(AP) on June 8, 2015. The DASN(AP) grouped the proposed benefits into seven categories: improve contract financing, clauses or data submission, reduce oversight, reduce performance requirement, profit, delegate government authority, and general. Figure 8 shows the number of the proposed benefits for each category and the overall distributions.



Figure 8. Proposed Benefits Categorized by the DASN(AP)



Source: Deputy Assistant Secretary of the Navy–Acquisition and Procurement (DASN[AP]), personal communication, June 8, 2015.

Based on the DASN(AP) categorization, the top three categories are General, Reduce Performance Requirements, and Reduce Oversight. The General category has the highest number of proposed benefits from the Superior Suppliers at 34.55%. However, the General category includes varieties of proposed benefits that could not be categorized into the other six categories. The Reduce Performance Requirement category includes items related to Earned Value Management (EVM), Contract Data Requirements Lists (CDRL), and a number of reporting and approval requirements. The Reduce Oversight category contains proposed benefits mostly related to administrative requirements such as audits and inspections. Appendix B provides the complete list of the primary data from the DASN(AP).

Upon completing the review of the DASN(AP) data, we determined the DASN(AP) categorization is preliminary and only provides a basic analysis. To identify patterns, consistencies, and implications effectively, we applied three additional data analysis frameworks: FAR policy analysis, contract management process analysis, and risk-benefit analysis. The following sections provide the findings of the three additional analyses.

## 2. FAR Policy Analysis

In FAR policy analysis, the proposed benefits are matched to their relevant FAR policies—policies that may be affected if the proposed benefits were granted. The purpose of this analysis is to identify patterns or consistencies in the FAR policies that the Superior Suppliers deem most burdensome.

There are three limitations in this analysis that are worthy of mention. First, the FAR policy categorization is somewhat subjective. The data received from the DASN(AP) was sanitized to mask the specific contractor requests (i.e., we only received summarized statements); thus, in some cases, interpretation was required to determine the most relevant FAR reference(s). To ensure accurate coding, each researcher coded the proposed benefits individually, and then we used discussions to achieve 100% coding agreement for each proposed benefit. Second, seven proposed benefits appear to affect more than one FAR policy. For the purpose of this research, all relevant FAR policies were considered, thus it is possible for one proposed benefit to represent more than one FAR policy. Third, six proposed benefits did not have direct FAR references. Instead, they referred to policies at the department (DOD) level, service (Navy) level, and Defense Contract Management Agency (DCMA)/Defense Contract Audit Agency (DCAA) instructions. For the purpose of this research, the proposed benefits referring to lower level policies were traced back to the corresponding FAR policies and categorized accordingly. Table 7 reflects the number of the proposed benefits for each FAR policy affected and the overall distributions.

Table 7. FAR Policy Analysis

<b>FAR Policy</b>	<b># of Proposed Benefits</b>	<b>Distribution</b>
Part 42: Contract Administration and Audit Services	13	20.97%
Part 15: Contracting by Negotiation	10	16.13%
Part 32: Contract Financing	8	12.90%
Part 16: Types of Contract	7	11.29%
Part 46: Quality Assurance	6	9.68%
Part 34: Major System Acquisition	5	8.06%
Part 37: Service Contracting	3	4.84%



<b>FAR Policy</b>	<b># of Proposed Benefits</b>	<b>Distribution</b>
Part 9: Contractor Qualification	2	3.23%
Part 44: Subcontracting Policies and Procedures	2	3.23%
Part 45: Government Property	2	3.23%
Part 22: Application of Labor Laws to Government Acquisitions	1	1.61%
Part 25: Foreign Acquisition	1	1.61%
Part 39: Acquisition of Information Technology	1	1.61%
Part 48: Value Engineering	1	1.61%
<b>Total</b>	<b>62</b>	<b>100%</b>

The FAR policy analysis revealed that the top three most frequently mentioned FAR policies by the Superior Suppliers in their proposed benefits were FAR Part 42, Contract Administration and Audit Services (20.97%); FAR Part 15, Contracting by Negotiation (16.13%); and FAR Part 32, Contract Financing (12.90%). Appendix B provides the complete FAR policy analysis results.

### **3. Contract Management Process Analysis**

In contract management process analysis, the proposed benefits were matched with their relevant phase(s) of the contract management process. The purpose of this analysis is to identify patterns or consistencies in relation to contract management process and identify the phase(s) that present(s) the most concerns for the Superior Suppliers.

Two limitations were identified during the contract management process analysis. First, as a result of the same sanitization procedures described above, contract management process categorization is somewhat subjective. The same coding process was used to achieve 100% code agreement. Second, eight proposed benefits affected two contract management phases, and three proposed benefits affected three contract management phases. For the purpose of this research, all relevant contract management phases were considered, thus it is possible for one proposed benefit to represent more than one contract management phase. Table 8 reflects the number of the proposed benefits for each contract management phase and the overall distributions.



Table 8. Contract Management Process Analysis

<b>Contract Management Phase</b>	<b># of Proposed Benefits</b>	<b>Distribution</b>
Procurement Planning	7	10.14%
Solicitation Planning	11	15.94%
Solicitation	2	2.90%
Source Selection	11	15.94%
Contract Administration	36	52.17%
Contract Close Out	2	2.90%
<b>Total</b>	<b>69</b>	<b>100%</b>

The contract management process analysis revealed that the top three most frequently mentioned contract management process phases were Contract Administration (52.17%), Solicitation Planning (15.94%), and Source Selection (15.94%). Appendix B provides the complete results of the contract management process analysis.

#### **4. Risk-Benefit Analysis**

The risk-benefit analysis seeks to understand the risk-benefit tradeoffs of each of the 55 proposed benefits. The purpose of this analysis is to determine the degree of increased risk to the government in exchange for the degree of increased benefit to the Superior Suppliers, if a proposed benefit were to be implemented. This analysis provides a sort of prioritization schema for the Navy by identifying which proposed benefits would be the easiest to implement (in terms of risk to the government) and provide the greatest return to the Superior Suppliers (in terms of benefit or ease of burden).

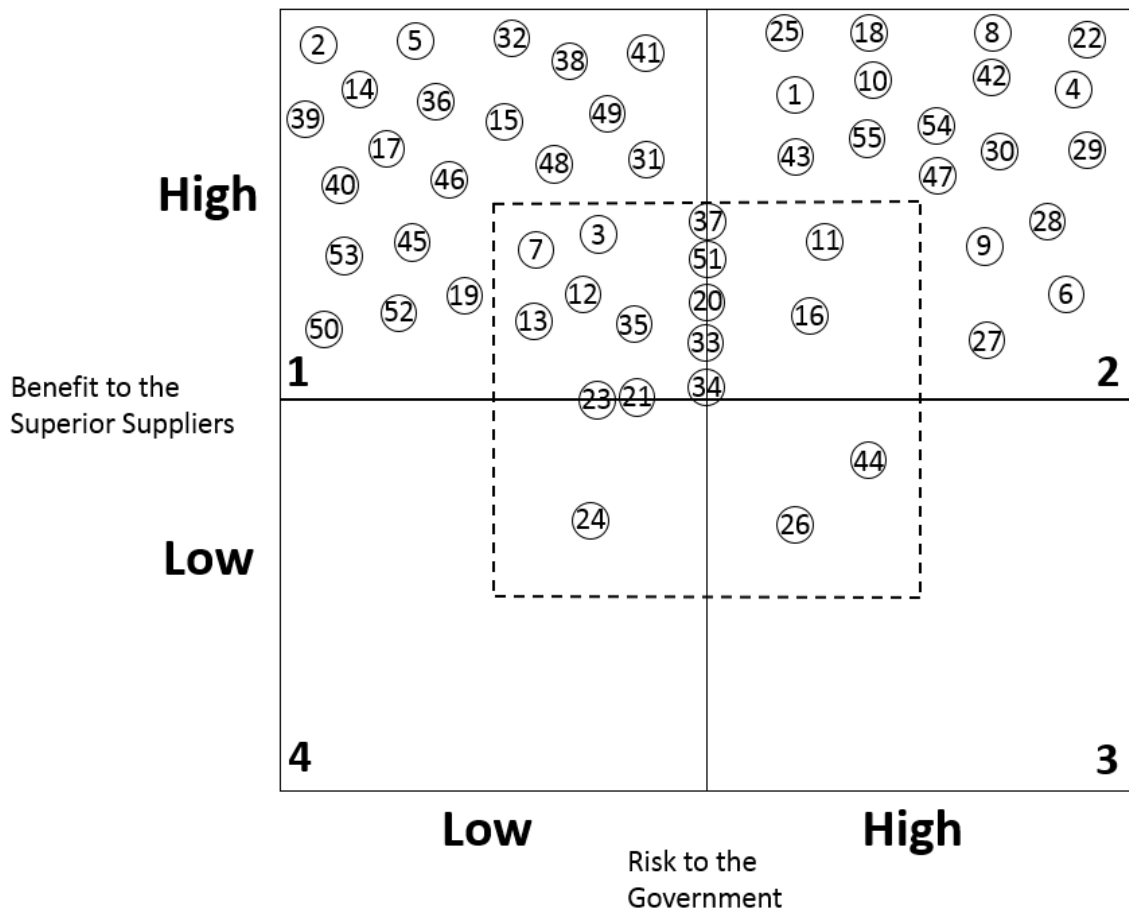
In risk-benefit analysis, each proposed benefit was assigned a risk rating and a benefit rating. The original methodology contained only two rating criteria, high and low. However, during the course of the analysis, we discovered that a number of proposed benefits did not have clear risk or benefit ratings because the ratings could change based on other conditions, such as dollar value of contract, acquisition phase, and so forth. To overcome these challenges and improve accuracy, we added three additional rating criteria: medium, high/medium, and low/medium. We modified the risk-benefit analysis matrix accordingly.





Figure 9 plots the 55 proposed benefits based on their risk and benefit ratings. Quadrant one represents the proposed benefits with low risk to the government and high benefit to the Superior Suppliers. The proposed benefits in quadrant one should be the priority for policy change consideration. Quadrant two represents proposed benefits with high risk to the government and high benefit to the Superior Suppliers. Quadrant three represents proposed benefits with high risk to the government while returning low benefit to the Superior Suppliers. Quadrant four represents proposed benefits with low risk to the government and low benefit to the Superior Suppliers. Finally, the dotted square in the center represents those proposed benefits with ambiguous risk or benefit ratings of medium, high/medium, or low/medium.

Figure 9. Risk-Benefit Analysis Matrix



The risk-benefit analysis revealed the following results: 20 proposed benefits in quadrant one (low risk/high benefit), 18 proposed benefits in quadrant two (high risk/high benefit), zero proposed benefit in quadrant three (low risk/low benefit), and zero proposed benefit in quadrant four (high risk/low benefit). Finally, 17 proposed benefits have ambiguous risk or benefit ratings and were placed in the middle square. Appendix C provides the complete risk-benefit analysis results. The next section discusses the implication of the data analysis findings.

### **C. DISCUSSIONS, IMPLICATIONS, AND RECOMMENDATIONS**

This section discusses the implications of the findings from our three analyses. For the sake of brevity, we focus only on those proposed benefits located in quadrant one: those representing low risk to the government and high benefit to the Superior Suppliers. Because these proposed benefits are considered the priority for implementation, we feel it is prudent to examine them more closely. Quadrants two, three, and four and the center square are not analyzed any further in this research. Appendix D demonstrates the complete list of proposed benefits in quadrant one.

In the next step, the proposed benefits in quadrant one were analyzed using contract management process analysis and FAR policy analysis. Table 9 reflects the proposed benefits in quadrant one categorized and analyzed by contract management phase.<sup>1</sup>

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<sup>1</sup> This research considered all relevant contract management phases for each proposal. We identified six of the 20 proposed benefits representing more than one contract management phase, bringing the overall number to 27.



Table 9. Quadrant One Proposed Benefits by Contract Management Process

Contract Management Phase	FAR Part(s)	# of Proposed Benefits	Distribution
Procurement Planning	16, 37, 39	5	19%
Solicitation Planning	16, 37	6	22%
Solicitation	N/A	0	0%
Source Selection	15, 42	3	11%
Contract Administration	15, 32, 34, 42, 45, 46, 48	11	41%
Contract Closeout	32, 42	2	7%
<b>Total</b>		<b>27</b>	<b>100%</b>

Nearly half (41%) of the proposed benefits are in the contract administration phase, which suggests there are business practices in the contract administration phase that are causing concerns for the Superior Suppliers. Digging deeper into the FAR policies associated with the proposed benefits in quadrant one, we find that FAR Part 42, Contract Administration and Audit Services (21%), is the most frequently mentioned policy. This provides robustness to the finding that contract administration policies are causing the most concerns for the Superior Suppliers. Table 10 reflects the proposed benefits categorized and analyzed by FAR policies.<sup>2</sup>

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<sup>2</sup> This research considered all relevant FAR policies for each proposed benefit. We identified that five of the 20 proposed benefits represent more than one FAR policy, bringing the overall number to 24.



Table 10. Quadrant One: FAR Analysis of Contract Administration Phase

<b>FAR Part</b>	<b># of Proposed Benefits</b>	<b>Distribution</b>
Part 15: Contracting by Negotiation	3	13%
Part 16: Types of Contract	4	17%
Part 32: Contract Financing	2	8%
Part 34: Major System Acquisition	2	8%
Part 37: Service Contracting	3	13%
Part 39: Acquisition of Information Technology	1	4%
Part 42: Contract Administration and Audit Services	5	21%
Part 45: Government Property	2	8%
Part 46: Quality Assurance	1	4%
Part 48: Value Engineering	1	4%
<b>Total</b>	<b>24</b>	<b>100%</b>

In summary, we conducted data analysis using three frameworks: the FAR policy, contract management process, and risk-benefit analysis. The purpose of the first two frameworks was to identify patterns or consistencies in the 55 proposed benefits and to investigate if there is/are area(s) in the FAR and contract management process causing concerns for the Superior Suppliers. We discovered that the contract administration phase and FAR Part 42 are the most frequently mentioned areas in the 55 proposed benefits. This implies that perhaps the contract administration phase, specifically policies related to FAR Part 42, is causing frustration for the Superior Suppliers. The purpose of the third framework was to identify the implementation prioritization schedule for the proposed benefits. We identified 20 proposed benefits as low risk to the government and high benefit to the Superior Suppliers as the priority for policy change consideration.

In the next step, we applied the FAR policy and contract management process analysis to the 20 proposed benefits in quadrant one and discovered that the contract administration phase and FAR Part 42 are the most frequently mentioned areas of concern. These findings suggest that there may be numerous policy change opportunities in the contract administration phase and FAR Part 42. Furthermore, these opportunities



are potentially low risk to the government and high benefit to the Superior Suppliers, which can be used to incentivize the Superior Suppliers and support the Navy’s SSIP.

Based on the consolidated analysis findings, we were able to identify six proposed benefits from the original 55 proposed benefits as the priority for taking action. These six proposed benefits are listed in Table 11. We recommend Navy acquisition leadership conduct further study on these six proposed benefits to determine the feasibility for SSIP implementation.

Table 11. SSIP Implementation Priority

#	TITLE	SUMMARY OF RELIEF REQUESTED
2	Modification of DOD prompt payment requirements to accelerate final delivery payments	Authorize DFAS to accelerate all invoice payments from 30 days to 7 days after receipt of a proper invoice or acceptance of supplies or services performance.
14	Reduce Government Property Audits	Request that Government Property Audits and DCAA Consumption Audits be reduced. Also request duplicate audits be eliminated.
36	Priority for DCAA/DCMA Business Systems Reviews	Request priority scheduling for Business Systems Reviews
48	FAR 52.248-1, “Valuing Engineering” (Feb 2000)	Request discussions surrounding the ability of Navy activities (via its supplements and/or directives) to encourage the use and implementation of value engineering changes.
49	Cost Performance assessment Report—Utilization of Small Business Rating Area	Contractor has observed potentially inconsistent consideration in U.S. Navy and DOD application of assessments for the “utilization of small business” rating area. Request review of the disparity between “outstanding” performance under DCMA rating versus different rating under Navy CPAR assessments.
50	“Head of the line” privileges—Support completion of audits and analysis	This request is about establishing an environment where Superior Suppliers are treated differently. The premise is that those suppliers designated as superior would require less attention in the queue and could be processed more quickly.

#### D. SUMMARY

This chapter discussed the findings, implications, and recommendations of our research. The findings of the data analyses suggest that there may be numerous policy change opportunities in the contract administration phase and FAR Part 42, Contract Administration and Audit Services, that would be low risk to the government and high benefit to Superior Suppliers. Finally, we recommended six proposed benefits to the Navy acquisition leadership as priority for SSIP implementation. The next chapter presents the summary, research conclusion, and areas for further research.



## **V. SUMMARY, CONCLUSION, AND AREAS FOR FURTHER RESEARCH**

### **A. SUMMARY**

The DOD's SSIP of 2013 sought to adopt industry best practices in supply and supplier management and explore opportunities to provide the first-tier Superior Suppliers with benefits or reliefs that would reduce administrative burdens, streamline processes, and eliminate non-value-added requirements. With the right incentives, it is possible for the defense industry to improve cost, schedule, and performance in DOD acquisitions, which could result in a win-win outcome for both the government and industry.

This research provided a literature review on supply and supplier management in industry, examined the benefits to buyers and suppliers, discussed industry best practices, and illustrated how the DOD could adopt industry best practices to incentivize defense contractors to improve performance.

The DON took the first step toward building trust and relationships with its Superior Suppliers by giving the first-tier Superior Suppliers (selected in 2014) an opportunity to submit white papers to the DASN(AP) suggesting possible reliefs or benefits that would improve efficiency and reduce non-value-added requirements. We obtained the 55 sanitized proposed benefits from the DASN(AP) and conducted data analysis using three frameworks: FAR policy, contract management process, and risk-benefit analyses. Upon completion of our analyses, we identified six proposed benefits as the priority for policy change consideration.

### **B. CONCLUSION**

The purpose of this research was to look for patterns or consistencies in the 55 proposed benefits and develop a prioritization schedule for implementing the proposed benefits. Results from the analyses were used to identify implications for the SSIP and DOD contract management policy. The conclusion of this research are next discussed in terms of our research questions:



**1. How can the benefits proposed by the Superior Suppliers be analyzed to provide insight to Navy acquisition leadership?**

The FAR policy analysis, contract management process analysis, and risk-benefit analysis were used to analyze the 55 proposed benefits by the Superior Suppliers to provide insight to the Navy acquisition leadership. These frameworks were selected because they are fundamental to understanding and implementing DOD procurement and contract management.

The FAR is the regulatory base for all federal acquisition and contract management. Although each agency may establish supplements to the FAR or local instructions to address agency-specific acquisition needs, the FAR is the primary authority and foundation for all service-specific supplements and instructions. As such, it is an ideal reference to examine patterns or consistencies in the proposed benefits. The six phases of the contract management process are used in both industry and government as a roadmap to guide organizational leaders and acquisition professionals through the complex contracting process. The six phases also provide a sound reference for examining patterns or consistencies among the proposed benefits. The risk-benefit analysis allowed us to understand whether the risk/benefit tradeoff was worthy of policy modification to implement proposed benefits. For a proposed benefit to be considered, it should meet two conditions: substantial benefit increase to the Superior Suppliers and reasonable risk to the government. This analysis method has the additional benefit of prioritizing potential policy changes for DON acquisition leaders.

The application of these three data analysis frameworks allowed us to identify patterns or consistencies in the 55 proposed benefits. Our research has identified the areas of the FAR and contract management process that caused the most frustration for the Superior Suppliers. Nearly 21% of the proposed benefits were related to FAR Part 42, Contract Administration and Audit Services, and over 52% of the proposed benefits were identified as occurring in the contract administration phase. Further, six of the 20 low-risk, high-benefit proposed benefits (i.e., those priority items in quadrant one) concerned relief from contract administration policies/procedures. We recommend that these proposed benefits are given priority in policy change considerations.



## **2. What are the implications of the analysis of the Superior Suppliers' proposed benefits for DOD contract management policy?**

The application of the three data analysis frameworks allowed us to identify patterns or consistencies in the 55 proposed benefits and provided two useful points of reference. First, we identified the FAR parts and contract management phases that caused the most concerns for the Superior Suppliers. If certain FAR parts and contract management phases were mentioned repeatedly in the proposed benefits, we can infer the Superior Suppliers were frustrated with the requirements and current practices associated with these FAR Parts and contract management processes. Second, we identified the prioritization schema for implementing the proposed benefits. For a proposed benefit to be considered, it should meet two conditions: substantial benefit to the Superior Suppliers and tolerable risk to the government. Our research identified six proposed benefits that meet these criteria and are the priority for policy change consideration.

The results of the analysis can be used as a surrogate measure to identify areas for potential improvement in the DOD's current acquisition practices. If the Superior Suppliers repeatedly mentioned certain areas of concern in their proposed benefits, we can assume the policies and requirements cause frustrations to the Superior Suppliers and perhaps have the same effects on most or all defense contractors. Therefore, the results of the analyses open doors for further research on areas for improvement in the DOD's acquisition processes to allow greater efficiency and to improve buyer-supplier relationships.

### **C. AREA FOR FURTHER RESEARCH**

We recommend the following actions for further research:

The scope of this research was limited to the small sample size of the Navy defense contractors. Therefore, it is recommended that Superior Suppliers feedback is also obtained from the Army and Air Force to conduct data analysis on proposed benefits for all services, thus enabling the identification of patterns or consistencies for the DOD as a whole.





The interpretation of the data was subjective. Therefore, it is recommended that a different group of researchers conducts the data analysis to see whether the results lead to the same conclusions.

The risk-benefit analysis was based on the government's perspective. Therefore, it is recommended that the risk-benefit analysis is conducted from the perspective of the defense contractors to gain understanding of the contractors' views on risk and benefit ratings.



## APPENDIX A. QUESTIONS ASKED TO INDUSTRY

1. What clauses are currently being used in government subcontracts and commercial contracts and subcontracts to incentivize superior performance at the corporate level in the areas of cost, schedule, performance, quality, and business relations?
2. What solicitation provisions, contract clauses, and performance incentives will provide contractors with the greatest motivation to achieve preferred supplier status?
3. Energy efficiency is a critical DON requirement significantly impacting the successful achievement of the DON's missions. How should a contractor's use of energy, as it relates to the entire life cycle of a product—design, manufacture, use, maintenance, and disposal—be considered in the designation of Preferred Suppliers?
4. Is there any other aspect of the proposed Preferred Suppliers Program on which you wish to comment? (DASN[A&LM], 2010, p. 28,789).



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**APPENDIX B. LIST OF PROPOSED BENEFITS AND ANALYSES**

#	TITLE	SUMMARY OF RELIEF REQUESTED	CATEGORY	FAR PART(S)	CONTRACT PHASE(S)
1	Modification of the requirement for fee withhold on CPFF contracts	Waive the fee withhold for existing and future CPFF contracts based on contractors record of outstanding contract performance.	Improve Contract Financing	Part 16: Type of Contracts	Solicitation Planning
2	Modification of DOD prompt payment requirements to accelerate final delivery payments	Authorize DFAS to accelerate all invoice payments from 30 days to 7 days after receipt of a proper invoice or acceptance of supplies or services performance.	Improve Contract Financing	Part 32: Contract Financing Part 42: Contract Administration	Contract Administration, Contract Closeout
3	Improved Performance Based Payments (PBP) process during negotiations for Navy program	Request to allow a more accommodating and flexible cash model. Establishing a fair fee position upon price agreement would make negotiation more efficient.	Improve Contract Financing	Part 32: Contract Financing	Source Selection, Contract Administration
4	Improve Contractor Financing for Large Businesses (e.g., Improved Progress Payment Rate, Performance Based Payments)	Request authority to eliminate the 2-step approval process for Performance Based Payment (PBP). Allow PBPs to be awarded on FPIF contracts. Allow for increase in Customary Progress Payments for Large Businesses to exceed 80% and or revise criteria for Unusual Progress Payments to apply to Large Businesses.	Improve Contract Financing	Part 32: Contract Financing	Contract Administration
5	Change payment terms from net 30 days to 15 days with consideration	Restore direct billing authorizations for superior suppliers. Payment terms will include negotiated discount or other consideration for payment within 15 days.	Improve Contract Financing	Part 32: Contract Financing	Contract Administration



#	TITLE	SUMMARY OF RELIEF REQUESTED	CATEGORY	FAR PART(S)	CONTRACT PHASE(S)
6	Reinstate direct billings	Request reinstatement of direct billing authorization.	Improve Contract Financing	Part 32: Contract Financing	Contract Administration
7	Customary Progress Payment Rate	Increase the customary progress payment rate from 80 percent to 85 percent.	Improve Contract Financing	Part 32: Contract Financing	Contract Administration
8	Moving parts and wear clause	Insert the special H Clause written by the contractor and approved by both DCMA and U.S. Army Project Office.	Clause or Data Submissions	Part 46: Quality Assurance	Contract Administration
9	NAVAIR Savings Clause (5252.215-9512)	Waive this clause as it provides an administratively burdensome, if not impractical, mechanism to manage the burdening of costs and invoicing throughout the supply chain.	Clause or Data Submissions	Part 32: Contract Financing	Contract Administration
10	TINA Thresholds	Provide exception to certified cost or pricing data requirements and utilize contractor's streamlined estimating methodologies and proposals for special situation proposals.	Clause or Data Submissions	Part 15: Contracting by Negotiation	Source Selection
11	Supplemental Instruction Regarding Electronic Invoicing (NAVSEA) (Sept 2012)	Request Navy to eliminate supplemental instructions which require segregation of costs and submittals of invoices at the "lowest level of performance," be it by Technical Instruction (TI), Subline Item Number (SLIN), or Contract Line Item Number (CLIN).	Clause or Data Submissions	Part 32: Contract Financing	Contract Administration



#	TITLE	SUMMARY OF RELIEF REQUESTED	CATEGORY	FAR PART(S)	CONTRACT PHASE(S)
12	Waive Cost or Pricing data for follow-on production using historical pricing versus cost based proposals	Request to waive cost or pricing data for follow on sole source production and spares work where there is continuous production ongoing. Or use negotiated prices to extrapolate different quantities and additional FY buys if contractor will certify to the base cost or pricing data.	Clause or Data Submissions	Part 15: Contracting by Negotiation	Source Selection
13	Extend periodicity of business systems clause audits and reduce withholdings	Relief requested in the frequency of the periodic audits of business systems. Contractors are requesting the frequency of the audits to be extended to once every 5 years where superior performance has been demonstrated in past audits.	Reduce Oversight	Part 42: Contract Administration and Audit Services	Contract Administration
14	Reduce Government Property Audits	Request that Government Property Audits and DCAA Consumption Audits be reduced. Also request duplicate audits be eliminated.	Reduce Oversight	Part 45: Government Property Part 42: Contract Administration and Audit Services	Contract Administration
15	Government inspection and Test/Source Inspections	Request for removal of Government Source Inspection requirements in areas where contractor has imposed/implemented Contractor Source Inspection Requirements.	Reduce Oversight	Part 46: Quality Assurance	Contract Administration
16	Quality Management System (QMS) Audits	Request discussions surrounding the elimination of redundant DCMA AS 9100 (quality management standard for aerospace industry) audits in recognition of contractor initiated and funded audits via an accredited 3rd party registrar.	Reduce Oversight	Part 46: Quality Assurance	Contract Administration



#	TITLE	SUMMARY OF RELIEF REQUESTED	CATEGORY	FAR PART(S)	CONTRACT PHASE(S)
17	Reduction in the frequency of Government property reviews	Reduce the frequency of Government property reviews across contractor division by adopting DCMA INST 124, "Contractor Property Management," to determine risk and to assign an appropriate audit frequency and methodology.	Reduce Oversight	Part 45: Government Property	Contract Administration
18	Tailored Product Testing	Eliminate or reduce the number of cycles of production reliability acceptance testing on select replaceable assemblies.	Reduce Oversight	Part 9: Contractor Qualification Part 46: Quality Assurance	Contract Administration
19	Tailored/Agile Development Process	Implement a tailored and agile design process aimed at incorporating an iterative development approach for hardware and software enhancements in mature programs versus traditional "waterfall" development approach.	Reduce Oversight	Part 39: Acquisition of Information Technology	Procurement Planning
20	Streamline DCMA/DCAA oversight	Eliminate requirements for DCMA/DCAA oversight for superior supplier or relax some of the requirements as outlined in the white paper.	Reduce Oversight	Part 42: Contract Administration and Audit Services	Contract Administration
21	Monthly Contract Status Review (CSR)/Contract Data Requirements Lists (CDRLs)	Tailor the content, frequency, and approval requirements of routine reports required on the contract as well as other CDRLs.	Reduce Performance Requirement	Part 42: Contract Administration and Audit Services	Contract Administration
22	Eliminate EVMS Reporting or Raise EVMS Required Thresholds	Eliminate non-MDAP programs from requiring EVMS regardless of contract type or value. Increase the dollar application thresholds for EVMS requirement from \$20/50M to \$50/100M.	Reduce Performance Requirement	Part 34: Major Systems Acquisition	Contract Administration





#	TITLE	SUMMARY OF RELIEF REQUESTED	CATEGORY	FAR PART(S)	CONTRACT PHASE(S)
23	Limit variance analysis reporting thresholds	Limit Variance Analysis Report (VAR) threshold to a maximum of 15 VARs. The time and money spent to prepare low dollar valued VARs and beyond the top 15 VARs adds little value.	Reduce Performance Requirement	Part 34: Major Systems Acquisition	Contract Administration
24	Streamlined approach with number of Contract Data Requirement Lists (CDRLs)	Eliminate informational CDRLs, which are not critical to contract execution. Modify requirements to reduce frequency and consolidate non-critical CDRLs.	Reduce Performance Requirement	Part 42: Contract Administration and Audit Services	Solicitation Planning Contract Administration
25	Implement EVM joint shipyard initiative recommendations	Request for relief/change includes: use of modular/sectional Work Breakdown Structure, budgeting of Control Accounts in labor hours rather than labor dollars, maintenance of schedule networks above the MRP level, Quarter Cost Performance Reports vs Monthly.	Reduce Performance Requirement	Part 34: Major Systems Acquisition	Contract Administration
26	Eliminate FAR 52.222-2 Overtime Premium Reporting	Request deletion of FAR 52.222-2: Payment of overtime premium. If this requirement was relieved, contract administrator could focus on resolving contractual issues associated with the products and services of the contracts.	Reduce Performance Requirement	Part 22: Application of Labor Laws to Government Acquisition	Contract Administration
27	Reduce or eliminate schedule and status submittals	Contractor requests that the frequency of specific CDRLs be reduced to quarterly. In addition, contractor requests that SWBS based reporting be eliminated from the Cost Data Summary Report (CDSR), specifically Forms 1921 and 1921-1, and the Cost Performance Report (CPR).	Reduce Performance Requirement	Part 42: Contract Administration and Audit Services	Contract Administration







#	TITLE	SUMMARY OF RELIEF REQUESTED	CATEGORY	FAR PART(S)	CONTRACT PHASE(S)
28	Warranty of Supplies	Eliminate the "evergreen" provision (Contractor's obligation for return, correction or replacement of supplies) via agency supplement.	Reduce Performance Requirement	Part 46: Quality Assurance	Contract Administration
29	FAR 52.209.3 "First Article Approval-Contractor Testing (Sept 1989)	Request that consideration to be given to grant an automatic waiver from First Article Test requirements. At a minimum, recognition should be given to allow it to proceed, absent explicit approval, with the purchase of material and production activities by virtue of the contractor's demonstrated performance.	Reduce Performance Requirement	Part 9: Contractor Qualification	Contract Administration
30	Modification of DOD policy to facilitate recognition of performance risk and cost efficiency	Request for relief in the use of the DOD Weighted Guidelines by (1) assigning max value of 7% under "management/cost control" element of performance risk, and (2) assigning value of up to 4% of the total objective cost under "cost efficiency" factor.	Profit	Part 15: Contracting by Negotiation DFARS 215.404: Proposal Analysis	Source Selection
31	Modification of DOD policy to authorize use of a pre-negotiated profit factor to simplify negotiations for a defined class of proposals	Request Navy advocate with DCMA for the re-establishment of the single spare parts profit factor that was in place for 15 years prior to 2009, which provided a streamlined approach.	Profit	Part 15: Contracting by Negotiation DFARS 215.404: Proposal Analysis	Source Selection
32	New contracting concepts that allow more profit in return for cost reductions, efficiencies, and/or innovations. Incentives for year-over-year affordability targets	Consider specific potential incentive structures as outlined in the white paper.	Profit	Part 15: Contracting by Negotiation FAR 16: Types of Contracts	Source Selection

#	TITLE	SUMMARY OF RELIEF REQUESTED	CATEGORY	FAR PART(S)	CONTRACT PHASE(S)
33	Record of Weighted Guidelines: "advanced agreement" on Cost Efficiency Factor	Explore the potential to establish a contractor specific level factor, and or range, for the cost efficiency factor to be applied in the development of pre-negotiation profit/fee objectives.	Profit	Part 15: Contracting by Negotiation DFARS 215.404-71: Weighted guidelines method	Source Selection
34	Consideration for increase profit for a Navy program	Programs and contracts that are continuing to reduce costs over time should be rewarded with increased profits.	Profit	Part 15: Contracting by Negotiation Part 16: Types of Contracts	Source Selection
35	Price Adjustment for Changes in Federal Law (FT) (Nov 1996) (NAVSEA)	Request clarification regarding potential price adjustments for changes in Federal Law in the provision of the NAVSEA clause which prohibits adjustments for "increase or decrease in prices charged by subcontractors or suppliers"	General	Part 44: Subcontracting Policies and Procedures	Source Selection
36	Priority for DCAA/DCMA Business Systems Reviews	Request priority scheduling for Business Systems Reviews	General	Part 42: Contract Administration and Audit Services DFARS 242-70: Contractor Business Systems	Contract Administration





#	TITLE	SUMMARY OF RELIEF REQUESTED	CATEGORY	FAR PART(S)	CONTRACT PHASE(S)
37	Advanced Agreement on Proposal Audits	Request dialogue with Navy and DCAA to address a consistent, streamlined, and timely audit process. Discuss initiatives to address associated acquisition delays including establishment of published timelines for various types of contracting actions, visibility into procurement planning milestones and longer-range acquisition forecasts, prioritization of audit focus, and clarity regarding positions for audit and agency responsibility.	General	Part 42: Contract Administration and Audit Services	Contract Administration
38	Modification of U.S. Performance Based Logistics (PBL) contract policy to authorize use of award term techniques	Request Navy add an "award term" feature to existing and future PBL contracts to allow performance to be directly linked to earning additional periods of performance.	General	Part 16: Type of Contracts FAR 37: Service Contracting	Procurement Planning Solicitation Planning
39	Extend the term of a Performance Based Logistics (PBL) program	Consider extending the performance of PBL contract beyond the current five-year term.	General	Part 37: Service Contracting	Procurement Planning Solicitation Planning
40	Use of Performance Based Logistics (PBL) contracts	Request Navy to transition from issuing UCAs and instead process RFPs for a PBL contract and provide for quick closeout of aged UCAs upon definitization.	General	Part 37: Service Contracting	Procurement Planning Solicitation Planning
41	Transition Undefined Contract Actions (UCAs) to long term fixed price contracts	Request Navy transition from issuing UCAs to award of five-year priced contract vehicles under various Navy programs.	General	Part 16: Types of Contracts DFARS 217.74: Undefined Contract Actions	Procurement Planning Solicitation Planning



#	TITLE	SUMMARY OF RELIEF REQUESTED	CATEGORY	FAR PART(S)	CONTRACT PHASE(S)
42	Foreign Military Sales (FMS)—Contract Award/Implementation	Request a dialogue with Navy to explore the methods and contractual mechanisms to respond to the competitive necessities of the international market while streamlining and accelerating the acquisition process.	General	Part 25: Foreign Acquisition DFAR 225: Foreign Military Sales	Procurement Planning
43	Implement improvements to the proposal process	Request Navy set policy of practice relief that would set maximum time periods for significant milestones/events in the proposal process	General	Part 15: Contracting by Negotiation	Procurement Planning Solicitation Planning Solicitation
44	Eliminate Purchase Spec. (consent to subcontracts) process	Request the subcontract consent process be waived for all subcontracts for new construction, repair, and Lead Yard services.	General	Part 44: Subcontracting Policies and Procedures	Contract Administration Solicitation Planning
45	Pre-agreement on shared savings for affordability initiatives on current/future production lots on Triton (UMS) program.	Funding by Navy command on the currently identified initiatives would result in joint savings over the expected life of a Navy Production program for both the Navy and the contractor.	General	Part 16: Types of Contracts	Solicitation Planning
46	Improve for a contractors underrun share	Consider improving the under run share ratio which will provide the benefit of promoting lower cost while stimulating aggressive pursuit of continuous affordability ideas.	General	Part 16: Types of Contracts	Solicitation Planning
47	Reduce Proposal Costs Savings by reducing burdensome proposal requirements	Request early collaboration and greater transparency into government acquisition requirements.	General	Part 15: Contracting by Negotiation	Solicitation Planning Solicitation Source Selection
48	FAR 52.248-1, "Valuing Engineering" (Feb 2000)	Request discussions surrounding the ability of Navy activities (via its supplements and/or directives) to encourage the use and implementation of value engineering changes.	General	Part 48: Value Engineering	Contract Administration



#	TITLE	SUMMARY OF RELIEF REQUESTED	CATEGORY	FAR PART(S)	CONTRACT PHASE(S)
49	Cost Performance Assessment Report—Utilization of Small Business Rating Area	Contractor has observed potentially inconsistent consideration in U.S. Navy and DOD application of assessments for the utilization of “small business” rating area. Request review of the disparity between “outstanding” performance under DCMA rating vs. different rating under Navy CPAR assessments.	General	Part 15: Contracting by Negotiation Part 42: Contract Administration and Audit Services	Source Selection Contract Administration Contract Close Out
50	“Head of the line” privileges—Support completion of audits and analysis	This request is about establishing an environment where Superior Suppliers are treated differently. The premise is that those suppliers designated as superior would require less attention in the queue and could be processed more quickly.	General	Part 42: Contract Administration and Audit Services	Contract Administration
51	Modification of DOD policy to provide blanket authorization for early delivery of end items.	Request Navy clearly state its desire to receive end items head of contract schedule, whenever possible.	General	Part 46: Quality Assurance	Contract Administration
52	Earned Value Management (EVM) Reporting	Request Navy establish a streamlined review and approval process so that contractors could request the removal of EV reporting requirements for CLINs where nature of the work does not justify the expense and for which adequate performance reporting is available at much less cost.	General	Part 34: Major Systems Acquisition	Contract Administration



#	TITLE	SUMMARY OF RELIEF REQUESTED	CATEGORY	FAR PART(S)	CONTRACT PHASE(S)
53	Earned Value Management (EVM) Audits	Request Navy to establish a clearinghouse or oversight function to eliminate the issuance to immaterial or otherwise low-value-added findings. Criteria could be developed to require auditors to explain why a draft finding is material in nature before it is issued. In addition, recommend some sort of oversight that ensures government auditors enforce ANSI requirements consistently across the country.	General	Part 34: Major Systems Acquisition	Contract Administration
54	Contractor Material Review Board (MRB) Authority	Request MRB authority be delegated to the contractor in cases of nonconformance.	Delegate Government Authority	Part 42: Contract Administration and Audit Services	Contract Administration
55	Delegate additional technical authority to shipbuilder	Recommend Navy delegate additional technical authority to the shipbuilder and ship design agent for approval of initial design products, and dispositioning and approving Engineering Reports for ship non-conformances and drawing changes.	Delegate Government Authority	Part 42: Contract Administration and Audit Services	Contract Administration



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## APPENDIX C. RISK-BENEFIT ANALYSIS

#	TITLE	RISK LEVEL	JUSTIFICATION	REWARD LEVEL	JUSTIFICATION
1	Modification of the requirement for fee withhold on CPFF contracts	High	Without fee withholding, all the risk will be on the government.	High	Without fee withholding, the contractor risk and accountability may be reduced.
2	Modification of DOD prompt payment requirements to accelerate final delivery payments	Low	Accelerated payment to proper invoice or after delivery of the product does not increase risk by much.	High	May increase the cash flow.
3	Improved Performance Based Payments (PBP) process during negotiations for Navy program	Low/Med	Performance payment was more favorable to contractor. Assuming Superior Suppliers' history of good CPARS ratings, it should be low risk to the government.	High	May reduce time for processing, increase profit, and increase cash flow.
4	Improve Contractor Financing for Large Businesses (e.g., Improved Progress Payment Rate, Performance Based Payments)	High	This is a two-step process 1) reduce oversight by reducing the approval process and 2) increasing progress payment rate to above 80%.	High	This benefit has two parts: it may increase progress payment and reduce oversight.
5	Change payment terms from net 30 days to 15 days with consideration	Low	Accelerated authorized payment should not increase significant risk to the government.	High	May increase cash flow by 15 days without increase in incentive %.
6	Reinstate direct billings	High	Reduces government control over billing and increase administrative burden at a service or lower level	High	May decrease process time for payment and increase cash flow.



#	TITLE	RISK LEVEL	JUSTIFICATION	REWARD LEVEL	JUSTIFICATION
7	Customary Progress Payment Rate	Low/Med	Increasing payment rate can help motivate contractors to perform better, depending on the contract price, 5% can be significant amount	High	Anytime contractor can increase profit, the reward is high, depending on the contract price, 5% can be high reward.
8	Moving parts and wear clause	High	Increases government risk if government reduces quality of the logistics and maintenance during the life cycle of the product.	High	It may relieve contractor from wear and tear responsibility. The reward may reduce accountability.
9	NAVAIR Savings Clause (5252.215-9512)	High	For contracts that require significant subcontractors, government will lose visibility on pass through charges in each tier of subcontractors.	High	May increase profit.
10	TINA Thresholds	High	Certified Cost and Pricing Data is in place to reduce significant cost overrun to the government. TTNA helps government to understand costs associated with developmental items better.	High	Exception to certified cost and pricing data may reduce administrative cost normally incurred in certifying cost data.
11	Supplemental Instruction Regarding Electronic Invoicing (NAVSEA) (Sept 2012)	High	For contract that has many CLINs, invoices are not based on CLINs. It is difficult to determine the cost	High/Med	May reduce administrative burden and allow more efficiency.
12	Waive Cost or Pricing data for follow on production using historical pricing versus cost based proposals	Low/Med	The product is in production and the government has historical pricing data	High	May reduce administrative burden and allow more efficiency.



#	TITLE	RISK LEVEL	JUSTIFICATION	REWARD LEVEL	JUSTIFICATION
13	Extend periodicity of business systems clause audits and reduce withholdings	Low/Med	Assume superior suppliers will be responsible in maintaining their business system	High	May reduce administrative burden and allow more efficiency.
14	Reduce Government Property Audits	Low	Eliminating duplicate government audit. Assume superior suppliers have their own auditing mechanism in place.	High	May reduce administrative burden and allow more efficiency.
15	Government inspection and Test/Source Inspections	Low	Superior suppliers should have their own inspection systems. So long as their systems are approved by the gov't, there's no reason for the gov't to re-do inspections.	High	May reduce inspection requirements as long as government approves their inspection system.
16	Quality Management System (QMS) Audits	High/Med	It is unclear if the third party register auditor will enforce government standard	High	May reduce oversight allowing contractor to make more decisions without government approval.
17	Reduction in the frequency of Government property reviews	Low	Establish/streamline audit standard IAW DCMA standard	High	May reduce administrative burden and allow more efficiency.
18	Tailored Product Testing	High	Testing is key function to ensure quality of the product prior to fielding and should not be compromised.	High	May reduce oversight allowing contractor to make more decisions without government approval.
19	Tailored/Agile Development Process	Low	Mature program and waterfall approach may not be efficient at times.	High	May reduce administrative burden and allow more efficiency.



#	TITLE	RISK LEVEL	JUSTIFICATION	REWARD LEVEL	JUSTIFICATION
20	Streamline DCMA/DCAA oversight	Med	Certain DCMA and DCAA oversight cannot be eliminated even for Superior Suppliers.	High	May reduce administrative burden and allow more efficiency. May reduce accountability.
21	Monthly Contract Status Review (CSR)/Contract Data Requirements Lists (CDRLs)	Low	Streamline or tailoring reports as it fits to the contract does not eliminate government oversight.	Med	Depends on the size and the type of the contract, tailoring requirement may reduce administrative burden and add efficiency.
22	Eliminate EVMs Reporting or Raise EVMs Required Thresholds	High	EVMs reporting ensure contractor stay on schedule and cost.	High	May reduce administrative burden and allow more efficiency. Reduce accountability.
23	Limit variance analysis reporting thresholds	Low/Med	Depends on the size of the contract, 15 VARs may or may not be enough.	Med	May reduce administrative burden and allow more efficiency. Reduce accountability.
24	Streamlined approach with number of Contract Data Requirement Lists (CDRLs)	Low	Not affecting Cost, Schedule, and Performance.	Low/Med	May reduce administrative burden.
25	Implement EVM joint shipyard initiative recommendations	High	EVM requirements are in place to ensure government receives quality products.	High	May reduce administrative burden and allow more efficiency. Reduce accountability.
26	Eliminate FAR 52.222-2: Overtime Premium Reporting	High	Easy for contractor to abuse overtime.	Low/Med	May reduce administrative burden.
27	Reduce or eliminate schedule and status submittals	High	Schedule and status submittal is important for government to track product progress.	High	May reduce administrative burden.
28	Warranty of Supplies	High	Government need to ensure the contractor is responsible for defective products.	High	May remove accountability on product performance.



#	TITLE	RISK LEVEL	JUSTIFICATION	REWARD LEVEL	JUSTIFICATION
29	FAR 52.209.3 "First Article Approval-Contractor Testing (Sept 1989)	High	Government need to approve first article prior to FRP to ensure quality and reduce waste.	High	May remove accountability on product performance.
30	Modification of DOD policy to facilitate recognition of performance risk and cost efficiency	High	Weighted guideline needs to be adjusted based on the risk of each contract.	High	May remove accountability on product cost.
31	Modification of DOD policy to authorize use of a pre-negotiated profit factor to simplify negotiations for a defined class of proposals	Low	Providing spare parts is not a developmental phase of the acquisition.	High	May streamline the negotiation and reduce administrative burden.
32	New contracting concepts that allow more profit in return for cost reductions, efficiencies, and/or innovations. Incentives for year-over-year affordability targets	Low	It also benefits the government to incentivize contractor to reduce cost and provide innovative products.	High	Contractor may receive monetary benefit for cost reduction and innovation.
33	Record of Weighted Guidelines: "advanced agreement" on Cost Efficiency Factor	Med	Case by case, Pro: aggressive cost reduction incentives may cause contractor to cut corners. Con: it may incentivize contractors to be more efficient.	High	Contractor may receive monetary benefits for cost saving.
34	Consideration for increase profit for a Navy program	Med	Case by case, Pro: aggressive cost reduction incentives may cause contractor to cut corners. Con: it may incentivize contractors to be more efficient.	High	Contractor may receive monetary benefits for cost saving.
35	Price Adjustment for Changes in Federal Law (FT) (Nov 1996) (NAVSEA)	Low	Providing clarification to the provision only.	High/Med	Provide policy clarification to allow contractors to plan relationship with subcontractors properly.



#	TITLE	RISK LEVEL	JUSTIFICATION	REWARD LEVEL	JUSTIFICATION
36	Priority for DCAA/DCMA Business Systems Reviews	Low	It does not eliminate or reduce government oversight	High	May reduce administrative burden, it is important for the contractors to stay current on business systems review.
37	Advanced Agreement on Proposal Audits	Med	Contractors requesting some standards to be put in place, which seems reasonable/not overly risky, since the gov't will have a part in establishing those standards.	High	Having adequate information may allow the contractor to have effective business planning.
38	Modification of U.S. Performance Based Logistics (PBL) contract policy to authorize use of award term techniques	Low	Risk to the government is low assuming the contractor continue to perform well.	High	Additional terms added to the contract based on the performance may yield more profit to the contractor.
39	Extend the term of a Performance Based Logistics (PBL) program	Low	Risk to the government is low assuming the contractor continue to perform well.	High	Additional terms added to the contract based on the performance may yield more profit to the contractor.
40	Use of Performance Based Logistics (PBL) contracts	Low	Government should avoid using UCAs if possible. If used, close them out and definitize the UCAs in timely manner.	High	May reduce administrative burden on the back half, increase profit margin.
41	Transition Undefined Contract Actions (UCAs) to long-term fixed price contracts	Low	Government should avoid using UCAs if possible.	High	May reduce administrative burden on the back half, increase profit margin.
42	Foreign Military Sales (FMS)—Contract Award/Implementation	High	Government is ultimately responsible for the performance of the product to the other nations.	High	Better compete in an international market.



#	TITLE	RISK LEVEL	JUSTIFICATION	REWARD LEVEL	JUSTIFICATION
43	Implement improvements to the proposal process	High	Assuming proposal process is in the procurement planning phase, reducing or setting maximum time period for each milestones/events will limit qualified contractors to submit proposals.	High	It may reduce competition if not enough time would be allowed to provide sufficient amount of proposals from qualified contractors.
44	Eliminate Purchase Spec. (consent to subcontracts) process	High	Waiving subcontractor consent process and allow prime contractor to make decision creates greater risk to the government	Low/Med	May reduce administrative burden.
45	Pre-agreement on shared savings for affordability initiatives on current/future production lots.	Low	Assume the proposal is reviewed and approved by the government, and assume the joint saving initiatives do not compromise cost, performance, and schedule.	High	It may increase profit.
46	Improve for a contractor's underrun share	Low	Government will benefit from incentivizing the contractor to save.	High	It may increase profit.
47	Reduce Proposal Costs Savings by reducing burdensome proposal requirements	High	Government needs to maintain level of playing field. Superior Suppliers should not be given advance information because it leads to unfair advantage.	High	May yield unfair advantage over other qualified suppliers.
48	DAR 252.248-1, "Valuing Engineering" (Feb 2000)	Low	Cost savings, may benefits both.	High	Cost savings, may benefit both.
49	Cost Performance Assessment Report—Utilization of Small Business Rating Area	Low	Accurate CAPRS data will benefit both government and contractor.	High	Accurate CAPRS data may benefit both government and contractor.



#	TITLE	RISK LEVEL	JUSTIFICATION	REWARD LEVEL	JUSTIFICATION
50	“Head of the line” privileges—Support completion of audits and analysis	Low	It does not eliminate or reduce government oversight.	High	May reduce administrative burden, it is important for the contractors to stay current on business systems review.
51	Modification of DOD policy to provide blanket authorization for early delivery of end items.	Med	Government may incur storage cost for early delivery of the product.	High	Control of production, cash flow, and savings on inventory storage fee.
52	Earned Value Management (EVM) Reporting	Low	It does not eliminate government oversight.	High	May reduce administrative burden and allow more efficiency.
53	Earned Value Management (EVM) Audits	Low	It does not eliminate government oversight.	High	May reduce administrative burden and allow more efficiency.
54	Contractor Material Review Board (MRB) Authority	High	It eliminates required government oversight.	High	May reduce accountability required to produce quality material as required.
55	Delegate additional technical authority to shipbuilder	High	It eliminates required government oversight.	High	May reduce accountability required to produce quality material as required.



## APPENDIX D. ANALYSIS OF LOW-RISK HIGH-BENEFIT PROPOSALS

#	TITLE	FAR PARTS	CONTRACT PROCESS
2	Modification of DOD prompt payment requirements to accelerate final delivery payments	Part 32: Contract Financing Part 42: Contract Administration	Contract Administration Contract Close Out
5	Change payment terms from net 30 days to 15 days with consideration	Part 32: Contract Financing	Contract Administration
14	Reduce Government Property Audits	Part 45: Government Property Part 42: Contract Administration and Audit Services	Contract Administration
15	Government inspection and Test/Source Inspections	Part 46: Quality Assurance	Contract Administration
17	Reduction in the frequency of Government property reviews	Part 45: Government Property	Contract Administration
19	Tailored/ Agile Development Process	Part 39: Acquisition of Information Technology	Procurement Planning
31	Modification of DOD policy to authorize use of a pre-negotiated profit factor to simplify negotiations for a defined class of proposals	Part 15: Contracting by Negotiation DFARS 215.404: Proposal analysis	Source Selection
32	New contracting concepts that allow more profit in return for cost reductions, efficiencies, and/ or innovations. Incentives for year-over-year affordability targets	Part 15: Contracting by Negotiation Part 16: Types of Contracts	Source Selection





#	TITLE	FAR PARTS	CONTRACT PROCESS
36	Priority for DCAA/DCMA Business Systems Reviews	Part 42: Contract Administration and Audit Services DFARS 242-70: Contractor Business Systems	Contract Administration
38	Modification of U.S. Performance Based Logistics (PBL) contract policy to authorize use of award term techniques	Part 16: Type of Contracts Part 37: Service Contracting	Procurement Planning Solicitation Planning
39	Extend the term of a Performance Based Logistics (PBL) program	Part 37: Service Contracting	Procurement Planning Solicitation Planning
40	Use of Performance Based Logistics (PBL) contracts	FAR 37: Service Contracting	Procurement Planning Solicitation Planning
41	Transition Undefined Contract Actions (UCAs) to long term fixed price contracts	FAR 16: Types of Contracts DFARS 217.74: Undefined Contract Actions	Procurement Planning Solicitation Planning
45	Pre-agreement on shared savings for affordability initiatives on current/future production lots.	FAR 16: Types of Contracts	Solicitation Planning
46	Improve for a contractors underrun share	FAR 16: Types of Contracts	Solicitation Planning
48	FAR 52.248-1, "Value Engineering" (Feb 2000)	FAR 48: Value Engineering	Contract Administration
49	Cost Performance assessment Report—Utilization of Small Business Rating Area	FAR 15: Contracting by Negotiation FAR 42: Contract Administration and Audit Services	Source Selection Contract Administration Contract Close Out



#	TITLE	FAR PARTS	CONTRACT PROCESS
50	“Head of the line” privileges—Support completion of audits and analysis	FAR 42: Contract Administration and Audit Services	Contract Administration
52	Earned Value Management (EVM) Reporting	FAR 34: Major Systems Acquisition	Contract Administration
53	Earned Value Management (EVM) Audits	FAR 34: Major Systems Acquisition	Contract Administration



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