

Neither Insourcing Nor Outsourcing But Rightsourcing

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The insourcing-outsourcing debate in Washington competes with the Israeli-Palestinian struggle for the title of most intractable dispute. As is often the case with such struggles, the battle lines move back and forth over the same territory. As a former Under Secretary of Defense for Acquisition, Technology and Logistics recently observed: outsourcing was promoted on the basis of saving 20 percent in operations and maintenance (O&M) expenses and now insourcing is seeking to save the same 20 percent.

The last two years have seen another turn of the screw. Since the late 1990s, the emphasis in the government, but particularly in the Department of Defense had been on outsourcing. This meant greater reliance on the private sector to both manage and perform work throughout the supply chain. The Obama Administration came to office with an ambitious program to shift the emphasis in government work between the public and private sectors. Insourcing had three primary goals:

- a) Ensure that functions that were clearly inherently governmental in nature were performed by government personnel;
- b) Build up a workforce capable of exercising oversight and guidance of work performed on behalf of the government; and
- c) Improve the efficiency and lower the costs of government sponsored work.

Now the campaign for insourcing has come to a halt. Insourcing made some progress with respect to its first two goals but fell afoul of the challenges inherent to finding and inducting the appropriate workforce as well as the current freeze on government hiring. It is with respect to the third goal, increasing efficiency and lowering costs, that insourcing has proven to be most disappointing. The reality is that insourcing has not produced the efficiencies and cost savings hoped for by proponents. No less a source than the Secretary of Defense, Robert Gates, has acknowledged this fact. Other sources have gone on record stating that insourcing will be held to the FY2010 levels.

This shift in emphasis between insourcing and outsourcing comes at a particularly challenging time. The federal government will be challenged as never before to reduce its expenditures while still performing critical functions. This is particularly the case for the Department of Defense. Secretary Gates has specifically identified logistics as an area from which the department will seek additional savings. With respect to national defense these functions include overseeing a supply chain that provides for the timely and effective delivery of goods and services to the warfighter at the lowest achievable cost. Moreover, that warfighter is now a more educated

consumer having experienced the benefits of rapid equipping, responsive supply chain management and just in time delivery. Managing these potentially conflicting goals is particularly challenging when the largest fraction of that chain by any measure resides in the private sector.

With the pendulum set to swing away from insourcing and towards a more balanced position, the timing would appear appropriate to consider an approach that might circumvent the constant back and forth over the same ground. The nation cannot continue to permit the intersection of the public and private industrial and support bases to be a war zone. The U.S. needs to find the right balance between the public and private sectors and between insourcing and outsourcing.

Rather than thinking in terms of insourcing or outsourcing, it may be wise to consider a strategy based on “Rightsourcing.” Rightsourcing acknowledges that there is value to be had from and contributions to be made by both the public and private industrial bases. Equally important, each part of the defense industrial base has unique characteristics important to the overall functioning and health of the defense enterprise. The private sector has the advantages of agility and flexibility. The public sector is able to take a long view of sustainment that allows it to support weapons systems long after they have gone out of production. The public sector also has a focus on the bottom line and on profitability which can be an enormous spur to efficiency. Both contribute in unique ways to the maintenance of a superb workforce. Rightsourcing would seek to exploit the best that both parts of the defense industrial base have to offer.

The concept of rightsourcing also must involve the re-engineering of the architecture for O&M based on the lessons of the last decade. There are a number of these lessons that go to the heart of the way to shape a rightsourced supply chain.

1. We do not want to repeat the mistakes of the past and move back to managing supplies rather than managing suppliers. The system needs to continue to move toward end-to-end supply chains with industry support. Cost reductions need to be achieved across the supply chain, not just in price reductions pursued on an item-by-item basis. This means that all players in the supply chain -- private sector, public sector, DLA, AMC, AFMC and the 3PLs -- must be part of the solution.
2. Life cycle support will become more important as program life spans continue to be extended and search for budgetary savings intensifies. DoD needs to plan technology insertion, midlife upgrades from program inception.
3. Recognize the importance of performance-based logistics as a guide to managing life cycle of platforms and equipments. PBL-based contracts can save money. They can be structured so as to ensure that cost savings are shared between the government and the corporation. There are a number of examples of successful PBL arrangements that are also private-public partnerships.
4. It will be important to ensure that warfighter readiness is maintained as costs are being reduced. Institutionalizing the Rapid Equipping Force/Rapid Fielding Initiative and providing a line item in the base budget for their activities is a step in the right direction.

But the larger point is the need to make the supply chain and the O&M function responsive to the customer, that is the warfighter. DoD should also expand the use of private sector product integrators in order to ensure that large, multi-item equipment sets can be acquired and assembled rapidly and at the lowest possible price.

5. Central to rightsourcing is expanding the range and quality of partnerships between the public and private sector. Both sides have to have an interest and a stake in the outcomes. The public sector brings certain advantages to the table, notably a trained and experienced workforce, unique infrastructure, some exceptions to standard costs and liabilities and a long-term perspective. The private sector brings access to capital, experience with supply chain and process management, engineering talent, a penchant for innovation, the profit motive and a focus on the customer.
6. Rightsourcing also necessitates alterations to the traditional time horizons for support and sustainment contracts. With reduced budgets and the need to support legacy systems for even more extended periods of time, contracts need to be of sufficient length to allow industry to recoup the investment costs needed to improve and maintain warfighter support.
7. As part of rightsourcing it will be important to protect small businesses and lower tier suppliers in a period of reduced demands and pressure to reduce contract length. Frankly, they need to look to expand the role of lower tier suppliers in the maintenance, repair and overhaul business to reduce price of parts.
8. A system that flexibly moves between the private and public sectors must be based on real cost and performance data. This means acquiring the proper information and developing appropriate metrics to judge true costs and performance. Rightsourcing requires the ability to compare apples to apples.

Ultimately, rightsourcing cannot be based on an arbitrary division of work or resources. Both the private companies and public sector installations need to be able to bid on work as appropriate. Congress should look at revising the laws to allow for the public sector to seek out partnerships. In this context, the U.S. also needs to revisit the dogma behind the 50-50 rule. Clearly, maintenance of core capability in the public sector has merit. But the selection of an arbitrary figure for the division of dollars between the two sectors no longer makes sense, if it ever did.