

Best Practices for Longer-Term Service Contracts

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IDA | Longer-term Service Contracts

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Sense of Congress

DoD is not leveraging advantages of longer-term service contracts, thereby missing opportunities for contractor investments in capabilities, improved quality/output, cost savings, workforce stability, benefits of contractor integration in activities, etc.

Congress cares about services contracts

- Services account for ~ half of DoD's \$390B in products & services (FY22)
- Outsourcing by U.S. Government since 1980s
- Scope of services is expanding with technological change (e.g., the Cloud)

IDA | 4450: Longer-term Service Contracts

Study Objective:

Find best practices from use of service contracts for periods longer than 5 years by commercial firms, foreign governments, State & local governments, and other Federal agencies.

Background:

Longer-term service contracts suitable for highly technical/complex services with sustained demand (e.g., aircraft maintenance). Goal is improved work processes/productivity necessitating contractor investments in capital and labor. Desired investments require longer contract periods (multiyear).

Method:

Primary research through interviews with practitioners.

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Multiyear

Buy more than one year's requirements without establishing and exercising options. DoD is obligated in advance of the availability of appropriated funds.

Multiyear Service Contracts (10 USC 2306c)

- Data suggest used infrequently
- Same legal construct for services as for weapons and supplies

Within DoD, general confusion on legal terms

Paper is agnostic on contract form, did not delve into legal minutiae.
However: **multiyear contract is in-line with relational contract.**

IDA | Insights: When Multiyear Contracts Are Useful

DoD View

- Desires large capital investment by contractors (facilities, equipment)
- Wants predictability (e.g., service aircraft engines) and certainty that requirement is enduring
- Encourages more bids
- Finds it difficult to define specifics (i.e., testing services needs change frequently – Navy's Atlantic Undersea Test & Evaluation Center)

Commercial View

- Desires long-term contracts as strategic relationships
 - Work together to “price to win” contracts/sales
 - Relationship continues as long as it helps *both sides*
- Buyer wants:
 - Price certainty: even if price is higher – hedge against volatility
 - Risk transfer (to some degree)
 - Less ‘arm’s length’ and more collaborative dialogue
- Seller wants:
 - Revenue certainty
 - Ability to forecast events/work

State and Foreign Governments:

- Give acquisition teams flexibility per law/regulation
- Move towards longer-term service contracts
- Measure programs against “guiding pillars” and decide whether to renew on a rolling basis – up to 15-20 years
 - Performance
 - Value for dollar
 - Flexibility to respond to deployments or economic needs
- Communicate with industry on needs ... to seek solutions and not dictate requirements

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Findings

Overarching theme: Establish “relational contracts”

Value is obtained through long-term cooperative relationships, such as investments in capital and labor by contractor, which can:

- Increase productivity
- Increase cooperation and industrial base stability
- Reduce antagonism
- Create intellectual property

Major proponents of relational contracts:

- 4 of 5 eyes (AU, UK, CA, and NZ): Learned concepts and tactics from U.S. firms
- Select U.S. States (UT): Revise procurement policies to encourage change
- U.S. commercial firms (contractor churn is disruptive)
- U.S. military: Naval Supply System Command (WCF)

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Findings

Six best practices:

Environmental: Create a strategic and management approach with DoD that will enable longer-term service contracts

Governmental personnel: Maintain a cadre of DoD subject matter experts

Business Case: Develop & continually update DoD business cases

Communications with industry: Describe & communicate to industry desired outcomes (do not dictate statements of work)

Critical contract elements: Share data & articulate goals and metrics

Relationship management: Manage the relationship and not the contract. Be responsive to new information and situations

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What holds back DoD? (not focus of study, but useful points):

Habit: Fall back on what you know (multiple year contracts)

Belief system: Churn is good for price and performance—keeps contractors on their toes

False perceptions: Not possible per FAR/DFARS

A lot of work to educate senior officials: Time lost educating them

Fiscal and DoD Budgeting: Uncertainty if Congress will appropriate — thus DoD makes decisions not on best value but on future budget guesses, and Services want flexibility to reprogram funds

Industrial base: Share the wealth