

Making Performance-based Procurement Work

The Deepwater Project



Maximize operational effectiveness while minimizing total ownership costs.

A radically different approach to procurement is taking hold among many of the world's military and security agencies. It appears there is no turning back on the contracting model most commonly known as performance-based procurement. For example, the United States Department of Defense (DOD), as part of a comprehensive military transformation, seeks to have 50% of contracts awarded on a performance basis by 2006.

Although the concept of performance-based procurement has been in existence for many years, its application in a major way is quite new. The most compelling example is the contract awarded in June 2002 for the U.S. Coast Guard's Integrated Deepwater System (IDS), which included acquisition of new Maritime Patrol Aircraft (MPA) for Search and Rescue (SAR) and other patrol tasks. The contract's focus on performance instead of assets is worth examining in Canada, as the Canadian Forces prepare to acquire new Fixed-Wing Search and Rescue (FWSAR) Aircraft.

The Deepwater project is recognized as one of the most innovative procurement strategies ever executed in the United States and, valued at \$11 billion in the initial phase, it is the largest performance-based acquisition program in that country. For the next 20 years. As the Deepwater program unfolds over time

We said: "Industry, this is what we must be capable of doing. Now you tell us, based on your knowledge of technology, what is the best approach and the right mix of assets to accomplish that mission."

— Craig Schnappinger
former Deepwater Project Manager

there will be inevitable system changes, in response to technological advances and/or budget pressures. These events will serve to reinforce the fundamental importance of the very sound beginning to the project in 2002 via the performance-based methodology.

Focus on the Mission not the Asset

The Coast Guard is one of the U.S. armed services. It is part of the Department of Homeland Security but also works closely with the Departments of Defense and Transportation. Increasingly, the Coast Guard was finding that its aging, technologically obsolescent maritime and air assets were weakening mission effectiveness and efficiency. Its readiness was reduced, maintenance and total ownership costs were rising, and it lacked key capabilities such as appropriate sensors for search, detection and identification, a network-centric command and joint inter-

operability with the DOD and other related agencies.

The U.S. Coast Guard was faced with the task of creating a new suite of capabilities that would allow it to effectively execute its complex security, surveillance and SAR missions for decades to come.

The Coast Guard had always used the traditional acquisition model: replacing ships and aircrafts as they become obsolete or unsupportable on a platform, class-by-class basis. In this approach, governments define the solution they desire, setting out detailed specifications for the asset they seek to replace and asking industry to meet those specifications.

The Deepwater project broke out of that paradigm. The IDS Mission Statement put it succinctly: "The goal of this effort is not to replace ships, aircraft and sensors with more ships, aircraft and sensors but to provide the Coast Guard with the functional capabilities required to achieve mission success safely."

Rather than focusing on specific hardware, such as a class of cutter or aircraft, the Coast Guard defined its offshore mission requirements and challenged contractors to come up with innovative and cost-effective ways to perform those missions. Instead of asking industry to meet the agency's pre-defined solution, the contract process encouraged industry to propose solutions, including the best equipment, manpower and logistics package.

The Coast Guard identified 66 measures of effectiveness to be used as the basis for measurement of contractor performance. None of these measures related to capital assets (aircraft, ships or computers) but instead focused on program goals, for example, in the case of Search and Rescue, percentage of lives saved and response time to distress calls.

Deepwater's overarching goal was to deliver the greatest operational effectiveness while minimizing total ownership costs. The emphasis on total ownership cost recognized the fact that the lifetime operating and support costs would exceed procurement costs by a wide margin.

Results and Benefits

The Coast Guard awarded the contract to Integrated Coast Guard Systems, (ICGS) a partnership between Lockheed Martin and Northrop Grumman. The contractors were awarded a five-year contract with options for five additional five-year terms; a potential 30-year commitment.

ICGS is to deliver an entire system of interoperable platforms and supporting systems complete with the required life cycle supports. Part of the contract is the provision of up to 36 EADS CASA CN-235 aircraft for Medium Range Maritime Patrol and SAR, the platform that had been proposed by all three bidders. The EADS CASA Fully Integrated Tactical System (FITS) was also chosen for the platform.

The benefits of the process were described by Coast Guard Program Executive Officer for IDS, Rear Admiral Patrick Stillman in *Defense News*, April 2004: "The transformational power of the Deepwater program is profound – nothing less than the ability to alloy the Coast Guard's operational experience and expertise with our industry partners' world-class technical mastery, innovation and industrial capability."

This points to many of the advantages of performance-based procurement: encouragement of innovative solutions by industry, focus on best value and on reducing ownership costs, expanded public-private partnerships and more accountability for industry to deliver on performance results.

Other organizations in the world are applying this model to maritime security and SAR. For example, the Australian Customs Service arm responsible for maritime surveillance, Coastwatch, is taking a similar acquisition approach. The organization has commenced a project called Civil Maritime Surveillance 2004 (CMS04) to develop and implement future civil maritime surveillance and response capability. Coastwatch has defined its Concept of Operations and is seeking industry solutions to give it the capabilities to fulfill that mission for the next 20 years.

A similar, innovative acquisition approach would work well for the Canadian Forces FWSAR Replacement Program. The CF could define its mission requirements, for example, in terms of expanded coverage ranges and reduced target response times to reach rescue sites.

This would provide industry with an opportunity to suggest innovative solutions to provide Canadians with a capable, responsive and cost effective FWSAR fleet. **FL**

Bruce Johnston is President of EADS Canada. As a Rear Admiral in Canada's Navy, he commanded the Pacific SAR Region from 1994-96.

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