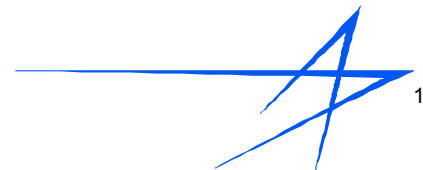


Performance Based Logistics

Rod Skotty
President, Maritime Helicopter Support Company



A Lockheed Martin – Sikorsky LLC



Background for H-60 T2T PBL



- Situation in 2000...
 - Repair costs escalating 10% per year
 - US Navy wanted single point of contact
 - 330 older H-60s phasing out – replace by over 500 MH-60R/Ss
 - Need for affordable sustainment well into future
 - Navy desire to position for Base Realignment And Closure and infrastructure reductions
- Navy asks industry for white paper ideas
 - Shows path to \$4B savings in 20 years
- DoD/Navy desire to transition to PBLs...mandate from Navy leadership to realize benefits of a performance based contracting
 - PBLs to influence contractor behavior to achieve performance goals
 - Initially, to right the ship...stop the bleeding
 - Then, to achieve desired performance goals
 - Transfer risk from government to industry
 - Incentivize with fixed-priced contracting



MHSCo H-60 Tip-to-Tail PBL



- Maritime Helicopter Support Company – a Sikorsky – Lockheed Martin Joint Venture established in 2000 for H-60 T2T PBL
 - Partnerships with government depots provide skilled labor, competitive rates, and political clout
- Since Dec 2003 providing supply support to fleet of Navy H-60s through Jan 2020
 - Over \$5B in support contracts (original and two renewals)
 - Fixed price per flight hour contract
 - Covers about 1,700 components
 - Over 500 Navy H-60s supported
 - Each contract has been largest ever awarded by NAVSUP
 - Largest logistics enterprise in naval aviation
- Provides single POC for PBL supply support for H-60s
- Guaranteed supply availability rates
- Contract incorporates features to answer USN/DoD priorities:
 - Gain-sharing for reliability improvements
 - Special Management Items to fix chronic reliability issues
 - Cost accounting visibility to see what the Navy is paying for

H-60 Tip-to-Tail PBL



- Performance improved by 60%; currently over 98% on-time
- Average logistics response time improved from >52 days to <3 days
- Improved non-mission capable supply rates by 30%;
- Removal rates improved by 25%;
- Avoided \$15M in costs due to obsolescence management;
- Saved \$15M annually due to product/process improvements;
- Industry partners invested \$150M resulting in improved capacity and flexibility, and cost reductions
- Depots benefit with improved processes that lead to lower rates and increased business
 - MHSCo investments in artisan training and business processes
- Special Metrics for “Head Hurters” at 100% fill
 - E.g. main rotor blades inventory went from negative 80+ to positive 200+
- Financial Penalties for non-performance
- Back orders reduced from +800 to ZERO
- Over \$1B Navy inventory managed at 99.991% accuracy
 - Over \$350M lost inventory accounted for
- MHSCo recognized as 1 of 9 top superior suppliers to US Navy

Must Haves for Effective PBLs



- Existing performance and cost problems to fix
 - Opportunity to effect change/influence contractor behavior
- Large population of parts to be covered
 - Amortize investments in parts reliability and repair processes over a large population of parts
 - Some investments will pay off, but some will not; contractor must be incentivized to invest regardless across the entire program
- Long-term period of performance
 - Contractor must be incentivized to invest at beginning with the reasonable expectation for profit in the out-years.
- Fixed-price contracting
 - Contractors are motivated by profit
 - Contract must have profit incentives to make necessary investments
 - Fixed-price linked to desired performance outcome (i.e. FP per Flight Hour)
- Mechanisms within contract to ensure accountability

Government Responsibilities for Successful PBL



- Willingness to outsource sustainment to achieve cost reductions
- Government/contractor agreement on demand forecasting and unit repair costs
- Political, as well as operational, priorities considered when contracting
- Single point of contact to resolve issues – open, intimate communication
- Clear understanding of performance objectives
- Transition plan to ease affected parties into new environment
- Contract adjustment mechanisms
- Simple and achievable metrics
- Best, experienced contracting officers on program
- Acceptance of higher contractor profit margins, if contractor exceeds performance goals...not a typical cost-plus environment

Industry Responsibilities for Successful PBL

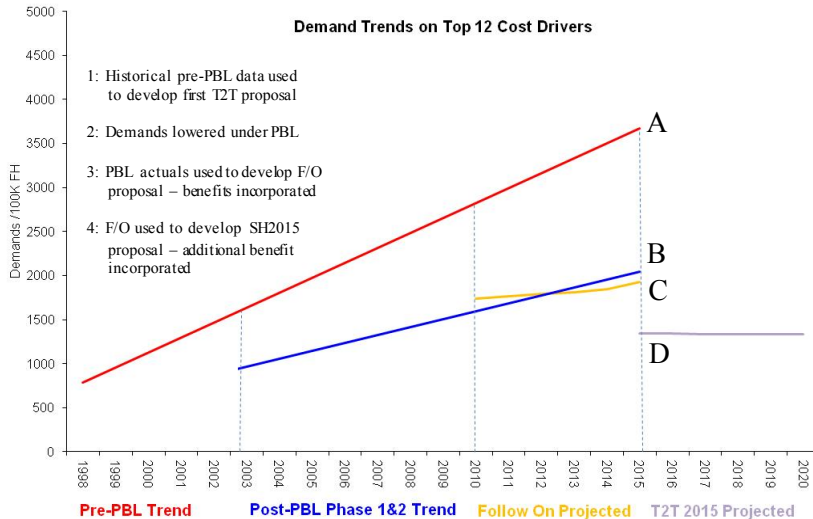


- Willingness to accept risk; drive innovation
- Open communication with government
 - At start/creation
 - Throughout
- Mechanisms to demonstrate accountability
- Organize program management as a distinct entity with a single focus of support
- Willingness to accept creative solutions to enhance performance
- Invest in process and reliability improvements
- Senior-level commitment to success of PBL
- Provide open and transparent cost accounting
- Best, experienced contracting people on program

Expectations for Affordability



Cost curves: (A)Pre-PBL, (B)Original PBL, (C)Follow-On, (D)Seahawk 2015



- Price per flight hour determined by cost of total demands per flight hour
- Top 12 cost drivers account for 40% of total costs
- Pre-PBL: costs were escalating 10% per year
- Cost curves flatten for each successive contract due to improved forecasting, profit mitigation, continuously improving processes.

Bending Cost Curves Down while providing Improved Performance