

# **Analysis of DoD's Commercial Activities Program**

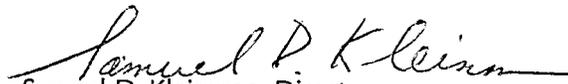
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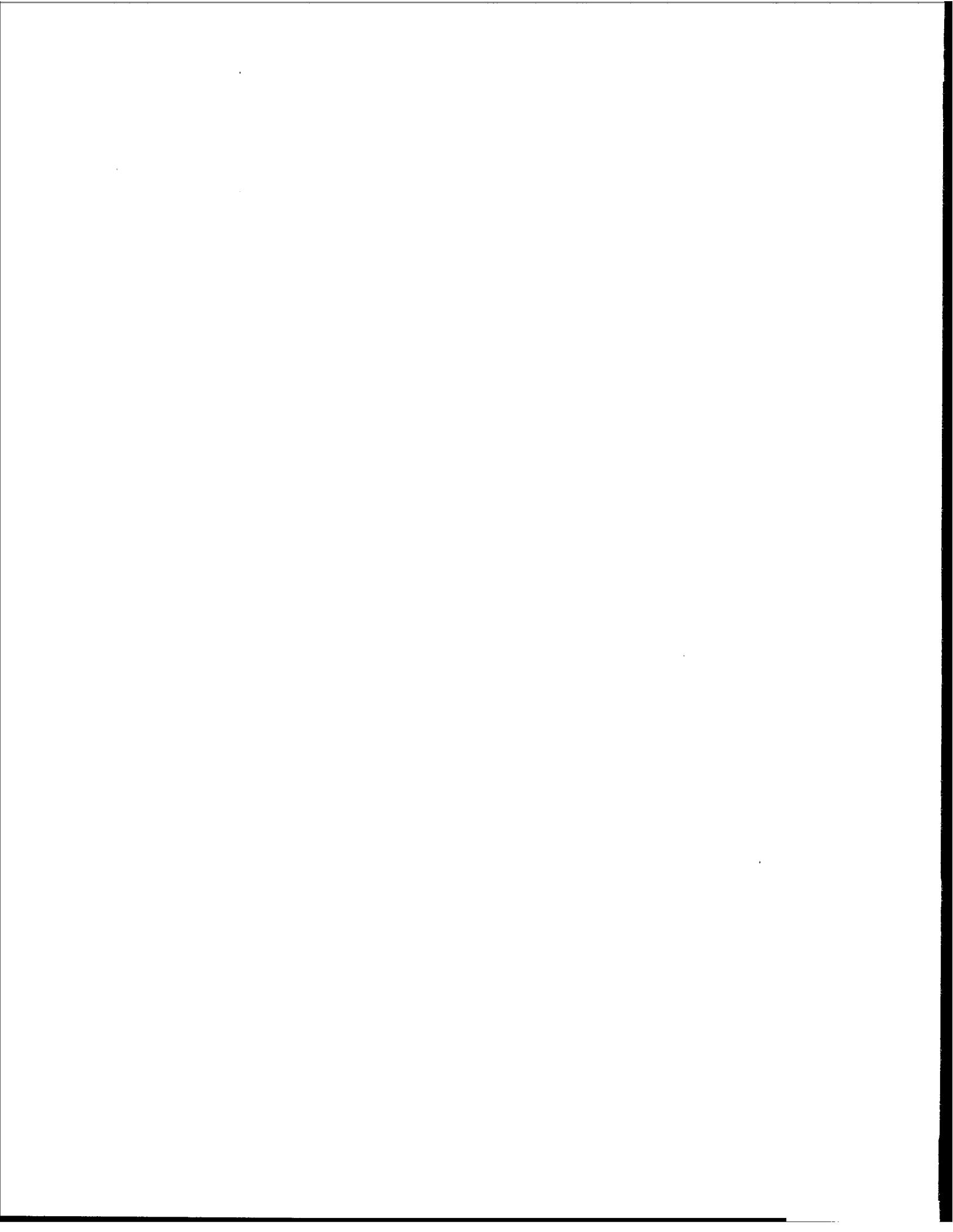
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## Summary

This research memorandum is part of a CNA-initiated research effort examining the DoD Commercial Activities (CA) program. Most of our previous research has examined the Navy CA program [ 1, 2]. This paper presents the results of all completed DoD comprehensive A-76 competitions between 1978 and 1994.

Our results are consistent with previous CNA analyses of the Navy CA program and with other studies of public-private competitions [3 through 6]. There are two companion documents: CIM 471 [7] which documents our examination of the CA Inventory data and CIM 472 [8] which documents our examination of the CA Competition data. These documents contain more details on our analysis of the respective data sets as well as suggestions for improving data collection in the future.

The results of this project answer the following questions:

- What are the results of previous CA competitions in DoD?
- Are there differences in the study completion rate across military services/agencies?
- Are there differences in savings across services/agencies?
- Are there differences in savings across functions?
- What characteristics of competitions are associated with high savings and what characteristics are associated with low savings?
- What level of savings can DoD expect from additional CA competitions?
- What improvements can be made to the existing tracking process for the CA program?

Answering these questions will allow the Navy and DoD to learn from the experience of all services in competing CA functions. The Navy and DoD can use our results to:

- Target certain functions with high potential savings
- Modify the process for functions with low savings in the past
- Monitor studies that have high historic cancellation rates
- Look for new competition candidates.

Past A-76 competitions have yielded significant savings. Total annual savings from previous competitions amount to about \$1.5 billion annually or about 30 percent of the baseline cost of performing the functions. The savings seem to result from competition rather than outsourcing per se.<sup>1</sup> Most of the completed competitions were small: 73 percent had 25 or fewer civilian and military billets.

We found that in general the following characteristics are associated with high savings:

- Large single-function competitions
- Functions performed primarily by military personnel
- Research (RDT&E) support
- Real property maintenance functions
- Installation services
- Intermediate maintenance.

In addition, we found that small competitions were more likely to produce no savings while large competitions were more likely to be canceled. Overall, 41 percent of initiated studies were canceled. We found no significant correlation between the probability of cancellation and the probability of zero savings, meaning that the canceled studies have the same potential for positive savings as the completed studies.<sup>2</sup>

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1. This is supported by an examination of the bids and by the fact that the in-house team won approximately half of the competitions.
  2. This result comes from a bivariate probit model of cancellation and zero savings which was estimated during our model selection process.

The 1995 CA Inventory contains about 389,000 military and civilian billets. We estimate that competing all of these billets could generate about \$6.2 billion worth of annual savings for DoD. There are many potential obstacles to realizing these savings including legal restrictions beyond the control of DoD. Two such restrictions are the 60/40 depot maintenance rule and the restriction on competing guards and firefighters.

On the other hand, DoD does have control over reclassifying CA billets so that they can be competed, and DoD can also exert influence on the likelihood that studies are completed. Savings will be less than \$6.2 billion if CA functions are exempted from competition or if studies are not completed. For example, the \$6.2 billion in potential savings could shrink to \$2.9 billion if we see the same pattern of study cancellations as in the past.

However, potential savings could also be larger than \$6.2 billion. The CA inventory currently includes only about 29 percent of all DoD civilians and 9 percent of DoD military billets. With 24 percent of its employment classified as CA, the Navy has classified billets as CA more aggressively than the other services. If the other services also classified 24 percent of their total employment as CA, total potential savings could rise to about \$11 billion.<sup>3</sup>

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3. See [9] for more details of this calculation.

