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**BUNDLING METHODOLOGY  
FOR RECONTRACTING ACTIVITIES**

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**TACTICAL METHODOLOGY**

The Air Force has many performance improvement and savings initiatives ongoing and planned for the near future. Some of these are recontracting initiatives.<sup>1</sup> To be able to take advantage of the potential benefits available through contract bundling, the Air Force needs a bundling methodology that it can implement immediately. In this section, we outline such a “tactical” (or short-run) methodology the Air Force could use in each of its current and upcoming initiatives to (1) determine whether a bundled acquisition strategy supports Air Force goals and, if so, (2) demonstrate that the bundled strategy is necessary and justified in light of the cost/benefit test described in the SBRA of 1997 (as defined by the SBA in its final rule). First, we describe the recommended approach, the primary element of which is a Request for Information (RFI) from providers of services that might potentially be included in any chosen bundle(s). Then, we outline a template structure for the RFI. Finally, we conclude with the new responsibilities the Air Force would need to accept to successfully execute this approach.

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<sup>1</sup>The Air Force currently seems to be focusing on A-76 studies rather than on recontracting activities. However, we believe that recontracting activities offer an equal or greater potential for performance improvements and savings.

## Approach

Our approach reflects the regulatory character of the rule that is being used to implement the SBRA. We propose a process that a regulatory agency might use to gather data to inform a proposed regulatory action, but we structure the data collection so that the Air Force controls how the data collected are used. In particular, our approach seeks to gather data on alternative bundles that the Air Force can use to (1) choose the best bundle(s) for the activities under review and then (2) give the SBA conclusive evidence that the bundle(s) chosen is/are necessary and justified.<sup>2</sup> Otherwise, as discussed earlier, the SBA has the authority to appeal the decision up the Air Force chain of command, leading to extra effort and potentially costly delays.

At the heart of the proposed bundling methodology is an RFI from relevant providers of the services under review for potential bundling. The Air Force devises a carefully structured RFI and uses it to gather the information it needs to make its bundling decision and justify it to the SBA. Such an approach offers the following advantages:<sup>3</sup>

- It reveals who really cares about this particular bundling decision outside the Air Force and hence who might demand SBA action. The RFI also reveals the nature of their interests. By inviting all interested parties to provide information early, the Air Force has an opportunity to build a case against any later intervention to stop an Air Force decision (or to take proactive steps to mitigate any concerns of interested parties).
- By inviting anyone with an interest in a case to provide input, the RFI provides a relatively easy, quick way to bring together information relevant to the Air Force's deliberations. This allows the Air Force to tap knowledgeable sources of information and limit the scarce Air Force resources it commits to the analysis.

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<sup>2</sup>If the evidence of bundling benefits does not meet the criteria needed to show that the bundle is necessary and justified, then perhaps it can be used to demonstrate to SAF/AQ that the bundle is necessary to the buyer organization's mission.

<sup>3</sup>A general benefit of the RFI approach is that it leads to early awareness in the industry about upcoming acquisition initiatives so that providers can better plan their proposal activities and begin discussions with buying organizations.

- An RFI is inherently externally oriented. The proposed process is likely to (1) yield relevant information that the Air Force cannot easily generate itself and (2) keep the Air Force continuously focused on the best opportunities external to itself as they develop over time.
- Any respondent claiming benefits from bundling that lead to a bundling decision that does not yield the benefits advertised creates a record that the Air Force can retain, monitor, and consider in its use of information from this respondent in future RFIs. This also applies if the claims about bundling are negative.
- A properly structured RFI meets the government's requirements for openness, fairness, and a formal process in a politically sensitive setting, while protecting sensitive, propriety data. The RFI would draw on the formal procedures that the Air Force already uses to guide its interactions with potential sources early in acquisitions.
- An RFI with these characteristics is compatible with a regulatory docket that gathers facts relevant to a specific case and hence would be suitable for use in a setting where the SBA plays an important role. However, a distinction is that in this context, the RFI gives the Air Force, not the regulator, control over how to use the data collected.

Specifically, the RFI provides an opportunity for the Air Force to identify a class of activities and seek external input on what bundle or bundles of these activities make good business sense. The RFI lays out the benefit threshold requirements for bundling from the SBRA (as defined by the SBA in its final rule). It also provides a structure for providers to discuss and validate the types of benefits associated with their proposed bundle(s) and to quantify the expected benefits to the Air Force. The results of the RFI provide the documentation the Air Force needs to select and generate approval for the optimal bundle(s).

It is clearly in the best interest of providers attempting to win a contract for a proposed bundle of services to help the Air Force choose the best bundle and generate the evidence needed to demonstrate that it is necessary and justified. Similarly, firms that oppose such a consolidation of services have an incentive to demonstrate why the

Air Force should use another acquisition strategy—perhaps no bundling at all. The Air Force can compare the inputs from such sources for any particular setting and determine what bundle(s) the available evidence will support. If well written and structured correctly, the RFI will induce advocates to produce evidence that the Air Force can easily compare and contrast. The Air Force can then use the results to complement other market research in the development of an acquisition plan. If leading-edge providers can document their case for significant performance and cost improvements, the Air Force can structure bundles that, in effect, may favor them in the competition. If not, the conditions of the SBRA cannot be satisfied, and the Air Force should structure its acquisition of services to reflect this.<sup>4</sup>

To successfully solicit useful information from leading-edge providers that have numerous commercial business opportunities, the Air Force must make an RFI as easy to respond to as possible.<sup>5</sup> We outline a proposed template below. It should be tailored with examples that pertain to the specific bundle under consideration.

### Template for the RFI

Air Force provides information about:

- The *administrative details* for the RFI, including the deadline, size constraints, etc., for responses and the ground rules for any Air Force/prospective provider interactions.
- The detailed procedures by which any *proprietary information* from prospective providers will be kept confidential.<sup>6</sup>
- The *specific services* to be reviewed for potential bundling. This section should include information about the types of services,

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<sup>4</sup>It is unclear how much discretion the SBA has to ignore or dismiss evidence, especially from first-time RFI respondents.

<sup>5</sup>Several providers told us that they have limited resources for responding to RFIs and Requests for Proposals (RFPs). They decide which to respond to by weighing the probability of generating new business and the ease of response, in terms of the cost in time and resources.

<sup>6</sup>Of particular importance is how the Freedom of Information Act might apply to provider responses.

locations where the services are provided, and any furnished equipment. The more detailed information provided, the better.

- The current *baseline* of unbundled contracts. This section should include detailed information about the types and levels of costs (e.g., labor, purchased materials) and performance associated with the current contracts. (The current cost and performance information is needed to help prospective providers calculate potential benefits for the bundled versus unbundled scenarios.) To the extent that current service contracts in the unbundled baseline are fixed-price contracts, the Air Force may not know the allocation of costs among different types of resources such as labor and materials. Without this information, prospective providers must make assumptions that will make comparisons across responses much more difficult. In addition, some providers may be unwilling to take the time to make the assumptions, although general information about current labor, materials, and performance may be adequate.<sup>7</sup>
- The level of *small business participation* that will be required in any bundled solicitation. This can be expressed in a variety of ways such as a subcontracting goal (e.g., the percentage of the total value of the contract that must flow through a prime contractor to small business subcontractors) and/or a goal for the percentage of the total value of the contract that must go to small businesses—including prime contractors, subcontractors, and suppliers. Providers should factor the required use of small businesses into any calculations about potential benefits associated with bundling.
- The *level of quantifiable benefits* associated with any bundling strategy (relative to the unbundled baseline) necessary to demonstrate that the bundled strategy is necessary and justified. The Air Force should use the thresholds provided in the SBA's final rule. (As the Air Force gains experience with the bundle justification process, it may want to gather evidence demonstrating that the levels of benefits exceed these stated thresholds to en-

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<sup>7</sup>For example, the Air Force may not know how much it spends on toilet paper for a base. However, if the Air Force can tell prospective providers some general information such as how many employees there are on the base and the typical hours of operation, prospective providers can estimate these kinds of expenditures.

sure against small discrepancies or disagreements that might arise during interactions with the SBA. If some benefits are dismissed as noncredible, the Air Force will need documentation of other benefits that can be used to fill the gap.)

- How the Air Force *values improvements* in important dimensions of performance. (As will be discussed below, the Air Force provides simple formulas or rules of thumb that providers can use to convert nonmonetary benefits into savings.) Potential types of performance improvements include increased aircraft availability associated with more efficient flightline maintenance or improved parts supply services and increased worker productivity associated with more flexible, responsive facility management services.
- Level of *aggregation* allowed when estimating cost and performance benefits (e.g., whether prospective providers are allowed to make assumptions about typical benefits packages across major service areas or are required to differentiate line item by line item).<sup>8</sup>
- How related *legislative constraints* should be factored into responses. For example, the Department of Labor (DoL) constructs wage floors that providers of services to federal agencies are required to pay for certain categories of labor.<sup>9</sup> The effects of these constraints may depend on where the services will be provided—i.e., because of aggregation in the construction of the wage floors, some may not be binding for selected career fields in various areas of the country. Accounting for constraints that may affect various services or types of labor differently creates additional burdens on prospective providers to respond to an RFI. Having to identify and factor the binding constraints into responses, rather than using assumptions commonly made in the commercial sector about market wages, requires considerable additional resources.
- The *time period* over which costs and performance benefits may be considered and any *discounting rules* that apply.

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<sup>8</sup>The more aggregation allowed, the easier it will be for prospective providers to respond. However, this may make the burden of proof more strenuous.

<sup>9</sup>See Robbert et al. (1997) for a discussion of the Public Service Contract Act of 1965.

The Air Force requests specific kinds of information on the *benefits* the Air Force would receive from shifting from the unbundled baseline to alternative larger bundles (proposed by the prospective providers). The Air Force asks:

- What types of benefits should the Air Force expect to receive? Benefits may include cost savings and performance improvements.
- What levels of these cost and/or performance benefits should the Air Force expect to receive? Nonmonetary benefits must be converted into savings to count toward the thresholds needed to demonstrate that a bundle is necessary and justified. [Providers are asked to use their own models, factors, or rules of thumb to convert expected performance improvements and the value the Air Force attaches to these improvements (provided in the RFI) into levels of savings.] Evidence of the full, exact levels of potential benefits is not necessary—only that they meet or exceed the SBA threshold levels.<sup>10</sup> If providers can demonstrate that expected savings alone exceed the thresholds, providers can simply list any additional performance benefits, rather than go through the potentially costly monetization exercise.<sup>11</sup>
- What specific information substantiates the predicted types and levels of benefits? Ideally, respondents will be able to provide empirical evidence from similar circumstances with other buyers and justification of why the Air Force should expect similar levels of benefits.<sup>12</sup>

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<sup>10</sup>As noted earlier, the Air Force may want to encourage calculation of benefits beyond the SBA threshold levels when justifying bundling to reduce the likelihood of delays in cases where some of the benefits may be disputed.

<sup>11</sup>One colleague expressed concern that specifying the SBA threshold may limit providers' innovation, creating a ceiling on proposed performance and cost benefits offered in bids, rather than a floor. However, it is important to distinguish RFI responses from bids. In the RFI stage, specifying the SBA threshold potentially eases the burden on respondents. Documentation of expected benefits beyond the threshold is not necessary.

<sup>12</sup>Providers' experiences with commercial buyers are more likely to be transferable to the Air Force context the more closely the Air Force's acquisition activities mirror commercial practices. For example, the Air Force has historically bought food services by buying the labor but providing all the physical assets itself. In contrast, commercial buyers generally bundle these together. If the Air Force bundles the labor and physical

In particular, the Air Force asks respondents to address a specific set of potential benefits associated with bundling, tailored to the services under review to the extent possible. The more concrete and quantifiable the evidence to substantiate these potential benefits, the easier it will be for the Air Force to bring this information to bear on the SBA requirements. Such benefits might include:

- Savings from

- Use of fewer personnel:

- Multi-skilled technicians who can perform other jobs when their primary specialties are not needed

- Ability to more efficiently share “filler,” or backup, staff across activities during breaks, vacations, or sick days

- Smaller total provider staff needed to manage provision of services resulting from management efficiencies arising from consolidation of related services

- Process improvements enabled by (a) investments in information systems that may be cost-effective only with a large bundle and/or (b) alignment of related processes

- If regionalizing services, personnel efficiencies owing to consolidation of identical services previously provided at different locations

- Fewer provider staff needed to set up and administer contracts with buyers

- Fewer Air Force personnel needed to set up contracts, pay invoices, and manage provider performance. (As noted above, these administrative savings require a potentially higher burden of proof. Benefits must be substantial relative to the value of the contract. The Air Force should use the threshold provided in the SBA’s final rule.)

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inputs for food services, providers will be better able to duplicate their experiences with commercial buyers in the Air Force setting. Similarly, PBSA allows the Air Force to use performance-based statements of work that provide opportunities for providers to transfer their best commercial practices into the Air Force setting.



- Better purchasing power from pooling purchasing activities across services included in a bundle [if a bundle includes responsibility for purchasing inputs (materials or other services) needed to provide the services in that bundle and the provider has better purchasing leverage than the Defense Logistics Agency (DLA) or the General Services Administration (GSA)]
- Reduced profit margin for the provider owing to increased buyer leverage associated with the larger workload
- More efficient use of capital equipment that can be shared across related services or that can be used for the same service at several locations
- Similarly, if regionalizing services, more efficient use of equipment and facilities through consolidation of identical services previously performed at different locations<sup>13</sup>
- Elimination of duplicate overhead expenses (e.g., workers' compensation insurance policies) by shifting from many providers to one or a few primary providers
- Elimination of multiple MIS used to track financial and accounting data as well as dimensions of performance. (This also can reduce costs associated with integrating systems and reconciling data.)
- Performance improvements (e.g., improved flexibility and/or responsiveness) arising from
  - Alignment of subparts of a single process or activity to improve coordination, responsiveness, flexibility, and accountability (e.g., less finger-pointing about poor performance when multiple services are related to the output)

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<sup>13</sup>With its current accounting systems, the Air Force may have a difficult time assessing the true cost of equipment and facilities required for certain services (e.g., aircraft component repair or calibration of the repair equipment itself). As a result, it will be challenging for the Air Force to count savings associated with more efficient use of facilities and capital equipment toward the SBA savings threshold.

- Alignment of subparts of a single process or activity to allow for better opportunities to measure and improve the process or activity (e.g., through investments in MIS and the resulting data integrity)
- Alignment of subparts of a single process or activity to provide an incentive for a provider to agree to tie more of its fee to performance
- When bundling the same service across sites, greater consistency of service levels across the whole workload
- When bundling multiple services at a single site, greater flexibility to quickly shift resources to meet emerging buyer needs
- Increased leverage (associated with the larger workload) to negotiate higher performance levels
- Better alignment of the performance of the services in the bundle with the overarching goals of the buyer organization
- Single provider point of contact that is ultimately responsible to the buyer for provision of services
- Reduced personnel turmoil (and thus improved performance) because small contracts are not being continually recompeted
- Reduced personnel turnover resulting from expanded career opportunities across related services.

In practice, it will be difficult to *monetize the value of performance improvements*. To the full extent possible, the Air Force should expect to rely on cost reductions to justify bundles. But the potential performance improvements associated with bundles can be substantial and are directly related to mission performance. To induce potential providers to present information about the monetary value of these improvements, the Air Force should develop a simple, consistent approach to measuring benefits that yields formulas or rules of thumb that

- Reflect a basic understanding of how the Air Force is likely to react to a performance improvement and how that reaction is likely to affect total ownership cost.
- Are as simple as possible, so long as they reliably document improvements that exceed the stated threshold.
- Provide enough information about how the Air Force values performance improvements so that potential providers need not guess about these values and can focus on bringing their own information to the formulas.
- Are accepted by all the key players so that, when they are applied, discussion can focus on the provider inputs rather than on the formulas themselves.<sup>14</sup>

Appendix E explains why these criteria are important and uses examples to suggest what kinds of formulas they are likely to yield. Developing such formulas will take considerable Air Force ingenuity. No matter how difficult they are to develop, they are critical to maintaining a simple approach that invites the participation of providers. The Air Force should expect that providers will offer some formulas and rules of thumb better than any the Air Force identifies, so it should not mandate the formulas used. Providing an initial set will illustrate the simple, consistent approach that the Air Force seeks and provide a starting point for a constructive, mutual improvement in formulas over time.<sup>15</sup>

The Air Force asks respondents advocating a bundled acquisition strategy to help it better understand two issues associated with *small business participation* in the services under consideration.

- Small business set-asides—which services could be set aside for provision by small businesses (as prime contractors) as part of the small business participation requirement with the least ad-

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<sup>14</sup>To build such a consensus about appropriate measurement approaches, the Air Force could host workshops in which Air Force functionals, industry service providers, and any other interested parties (such as small business representatives) analyze and debate various techniques for evaluating performance gains from bundling.

<sup>15</sup>Note that a similar approach was used to refine the formulas for performing benefit/cost analyses required for federal water projects in the 1960s.

verse (most advantageous) consequences for the benefits described above.

- Subcontracting—how would decreased or increased small business participation (relative to the specified requirement) affect the Air Force’s ability to receive the benefits described above.

As it reviews the information provided by respondents to an RFI, the Air Force should consider several specific *factors* (and warn respondents that it will be looking for them):

- Evidence that levels of benefits (discussed above) do not reflect double counting.
- Evidence that these benefits would actually accrue during the specified contract period.
- Evidence or risks (with justification) that moving from the unbundled baseline to one or more bundles may not produce benefits that meet the threshold necessary to pass the cost/benefit test in the SBRA. In particular, are there specific choices that could be made within the overall acquisition strategy that would reduce the Air Force’s ability to receive benefits from bundling (e.g., a restrictive statement of work that prescribes how services should be provided, or a fixed-price rather than cost-based contract)?
- Evidence that previous claims about the benefits of bundling from a respondent, offered in response to earlier RFIs, are reasonably compatible with the benefits realized from bundling decisions based on those earlier RFIs. (Similarly, evidence that previous claims from a respondent about the bad effects or lack of benefits associated with bundling were realized, if the decision was made to move forward with bundling.)<sup>16</sup>

### **Air Force Roles**

This tactical approach shifts significant responsibilities and workload from the Air Force to external, interested parties. However, it does

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<sup>16</sup>The process also should give providers opportunities to contest or explain evidence that seems to suggest that their previous predictions about bundling were wrong.

not relieve the Air Force of workload or responsibilities. Rather, this approach to bundling will be more successful—i.e., increase performance and reduce costs for the Air Force through more effective acquisition strategies—if the Air Force contracting community and functional communities relevant to the services being considered for bundling take on additional responsibilities and workload. These include the following:

- Identifying which groups of services to examine through RFIs for potential bundling. The leading-edge providers will be less interested in responding to an RFI if the services under consideration for bundling do not match well with those that they (with their subcontractors or alliance partners) typically provide to their commercial buyers, i.e., their core activities. This could happen if the scope is either too narrow or too broad.
- Writing and administering such RFIs. The primary goals here are to (1) make the RFI as easy for providers to respond to as possible and (2) make sure it reaches not only a large group of potential providers but also those providers recognized as offering the greatest performance and cost benefits to their buyers.<sup>17</sup> Thus, RFIs need to be clearly written; their contents need to be up-to-date to reflect evolving best commercial bundling practices (especially the sections on potential sources of savings and performance improvements and small business strategies); and a special effort must be made to identify those leading providers that are most likely to be able to provide the information the Air Force needs to make good bundling decisions and justify them (the identities of these firms may also evolve over time).<sup>18</sup>

As discussed in Appendix E, the development and maintenance of formulas and rules of thumb for valuing performance benefits

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<sup>17</sup>Leading providers of services within the commercial sector typically do not look at the *Commerce Business Daily* or the Electronic Posting System. The Air Force will have to reach them through direct contact (via e-mail or other means).

<sup>18</sup>One fairly easy way to locate these providers is by examining the lists of presenters at highly respected trade conferences [for example, Tradeline for facility management services or the Council of Logistics Management (CLM) for third-party logistics services]. In addition, Air Force buyers can contact innovative commercial buyers of services to find out which providers were their top candidates.

for the Air Force is a critical part of making the RFI easy to respond to. These activities should be coordinated with the Air Force's Reduction in Total Ownership Cost (R-TOC) program's activities to take advantage of synergies and to ensure consistency in the Air Force's interpretation of total ownership cost in different settings.

- Accepting the data generated by RFIs and transforming these data into (1) proposed bundles and (2) bundling justifications for submission to the SBA. The Air Force must evaluate the proposed bundling benefits and weigh them against potential risks from the buyer's perspective. In particular, it must be able to evaluate the credibility of methods used to convert nonmonetary benefits into savings and claims about future benefits associated with continuous improvement.

These activities should be integrated, or at least coordinated, with other activities charged with improving Air Force performance in general and/or services acquisition in particular. The importance of these additional Air Force responsibilities and workloads suggests the need for an Air Force bundling strategy that frames and supports the tactical RFI process described here.

### **STRATEGIC APPROACH FOR IMPLEMENTING THE TACTICAL BUNDLING METHODOLOGY**

The proposed tactical bundling methodology can work in isolation. However, because the bundling decision is just one part of a broader strategy for improving performance and reducing costs through purchased services, the Air Force can benefit from effective integration of this proposed approach to data gathering with more general Air Force acquisition planning for recontracting activities. Successful, sustained implementation requires a more strategic, integrated approach to acquisition planning than the Air Force typically uses today. Such an approach is described in an unpublished 1999 briefing by Moore et al. (see Chapter Three, footnote 13) and a 1997 unpublished briefing by Camm and Moore.<sup>19</sup> Here we outline only those

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<sup>19</sup>Frank Camm and Nancy Y. Moore, "Strategic Sourcing: A Key to the Revolution in Business Affairs," RAND briefing, 1997.

components of such a strategic approach that directly affect the bundling decision and justification process.

Unlike the commercial buyer firms that we interviewed in this research, the Air Force may face bundling decisions repeatedly for many types of services, such as installation support and flightline aircraft maintenance, as major commands and installations undertake recontracting activities. In addition, the proposed tactical bundling methodology requires resource-intensive Air Force (and potential provider) efforts as well as specialized skills. As a result, the Air Force (and potential providers) may benefit from centralization of many of these tactical bundling methodology activities, taking advantage of economies of scale that will likely reduce needed Air Force and provider resources associated with the RFI process, speed up the process, provide an opportunity for deeper investment in expertise where beneficial, and facilitate sharing of proven lessons learned across the Air Force.

In this section, we propose such a centralized approach to making and justifying bundling decisions. To accommodate integration of this centralized approach with broader strategic acquisition activities, we draw on our related research on implementing best commercial PSM practices. However, unlike our discussion of the tactical methodology above, we do not discuss the implementation details here because of the ties between bundling and broader strategic PBSA practices. Such a centralized bundling approach should be integrated into any detailed plan the Air Force puts in place for implementing the new practices associated with PBSA.

The primary responsibility for execution of a centralized bundling approach lies with organizations that we refer to as service industry-oriented sourcing groups—one for each major commercial service industry for which the Air Force has requirements. Examples of such industry groups might include integrated facility management services—including all services from basic facilities services, such as groundskeeping and heating/air-conditioning maintenance, to corporate real estate management services, such as lease management—and third-party logistics services—including inbound and outbound transportation by ship, train, truck, and air; warehousing; and other inventory management services. Each of these industry groups is a permanent (for as long as the Air Force has requirements

for the services), cross-functional team that conducts ongoing market research to understand the current best commercial (and government) practices for all dimensions of acquisition strategies for services that fall within that industry.<sup>20</sup> Thus, conducting market research for bundling decisions, as outlined in the tactical methodology, is just one part of these groups' responsibilities.<sup>21</sup> In addition to looking outside the Air Force, these teams are responsible for understanding which performance dimensions are most important to the Air Force and estimating a dollar value associated with improvements in those areas. For example, from a total ownership cost perspective, what is the Air Force willing to pay for improved parts support that leads to greater aircraft availability? Industry groups are assisted by representatives from the installations and major commands directly affected by recontracting activities.

Each industry group uses the information gathered through its ongoing market research (incorporating feedback from prior RFIs and the Air Force's experiences with bundled contracts) to determine general sets of services that may offer significant benefits to the Air Force from consolidation. By using market research to guide the choices of sets of services for RFIs, the Air Force should be able to generate desired levels of interest from the leading-edge commercial providers of these services. Each set of services thus becomes a potential starting point for an RFI for a particular recontracting activity. Before finalizing the set of services for an RFI, the industry group consults with leadership representatives and technical experts (relevant to the proposed services) from the affected installation(s) or major command(s) to determine if there are unusual circumstances that

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<sup>20</sup>Depending on the kinds of services involved and the Air Force's plans for PBSA implementation, industry groups may be Air Force organizations or joint organizations with other military services or federal agencies. Industry groups may be staffed by Air Force (or joint agency) personnel, consultants with long-term contracts, or some combination of the two. Industry groups may be located in a variety of settings; we saw a number of models during our commercial firm interviews. One of the more popular models would locate each industry group in the organization that is the major buyer of the included services.

<sup>21</sup>Because the Air Force is trying to reduce its infrastructure and headquarters staffs, perhaps the industry groups could be tasked to recover part or all of their costs by "selling" their services to the Air Force organizations conducting acquisition activities that need the expertise offered by these groups.



would warrant additions to or exclusions from the proposed set of services.<sup>22</sup>

Once a set of services for a recontracting activity has been finalized, the industry group takes the lead in writing and administering the RFI. The group draws on its prior experiences to write a clear, easy-to-respond-to RFI. It uses information from its ongoing market research to make sure the RFI reflects the most current information about best bundling practices and to identify the leading providers of the included services.<sup>23</sup> The industry group is responsible for (1) the formulas associated with monetizing improvements in various dimensions of performance and (2) the small business participation goal. Representatives from the affected installation(s) or major command(s) participate in this process as advisors. Their expertise is needed to tailor the RFI to reflect any unique circumstances such as the ability/willingness to furnish certain types of equipment, e.g., snow-removal equipment for grounds maintenance in northern locations, increased or decreased value associated with performance improvements, or the necessity of setting aside certain services to be subcontracted to small disadvantaged businesses.

There are many ways the Air Force could approach setting small business participation goals for recontracting activities. One option is to determine a single goal for *all* recontracting activities; however, such a one-size-fits-all goal is likely to be too low for those industries in which small businesses play important roles and too aggressive for other industries that are experiencing rapid consolidation.<sup>24</sup> A preferred option is to tailor small business participation goals to the individual characteristics of the services under consideration. The potential for small business participation could be included in the market research process for each service industry. The Air Force

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<sup>22</sup>For example, grounds maintenance was excluded from a recent Air Force multi-function A-76 study because the service is provided by prisoners. It was decided that no potential providers would want to assume responsibility for managing those workers.

<sup>23</sup>Market research will be most effective and efficient for identifying the best large, regional or national providers. Small bundles will most likely attract interest only from small, local providers that will be difficult to identify through the centralized market research process.

<sup>24</sup>See discussion in Appendix C.

could then strategically set goals across service industries to meet its overarching small business commitments, allocating goals according to the small business opportunities available within each industry group.

Once the RFI has been fielded, the industry group takes the lead in (1) receiving responses and analyzing data to create the optimal bundle(s) for the recontracting activity, (2) constructing the justification for the bundle(s) for submission to the SBA, and (3) working with the SBA to obtain approval for the bundle(s). The group draws on the results of its ongoing market research, prior RFI responses, and the Air Force's experiences when interpreting responses. Records of prior responses from individual providers can be used to validate current estimates of types and levels of benefits associated with bundling. In addition, the aggregate history is helpful when evaluating prospective providers' methods for converting expected nonmonetary benefits into savings or arguments against bundling that ignore the possibility of long-run continuous improvement opportunities. The group draws upon its prior interactions with the SBA when structuring the bundling justification and seeking approval for the preferred bundle(s). Representatives from the affected installation(s) or major command(s) act as advisors to the group, helping to interpret responses in the context of specific buyer needs and the environment in which the services will be performed.

Once the SBA has approved the preferred bundling strategy, the industry group turns over primary responsibility for the bundle and the associated small business participation goal to the team that will conduct the recontracting activity.<sup>25</sup>

## IMPLICATIONS FOR A-76 STUDIES

The Air Force has committed to an aggressive A-76 program. It plans to compete over 31,000 positions through A-76 studies between fiscal years 1999 and 2003.<sup>26</sup> The Air Force could potentially reduce its

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<sup>25</sup>However, given their expertise, the Air Force may desire some members of the industry group to continue to serve as advisors or even members of the team conducting the recontracting activity.

<sup>26</sup>See Bundy (1999).

administrative burden associated with these studies and benefit from increased performance improvements and savings opportunities through the use of large, bundled competitions.

The SBA has determined that the SBRA's requirement to demonstrate that bundles are necessary and justified does not apply to A-76 studies;<sup>27</sup> however, the Air Force could still benefit from using a simplified version of the proposed bundling methodology discussed here to make decisions about which services to include in bundles. Incorporating market research for these studies into the service industry groups' activities can create further economies of scale. As the teams learn about best bundling practices for A-76 studies, they can be used to make the market research and creation of RFIs for recontracting studies more efficient and effective (and vice versa).

An additional benefit of using an RFI to gather information to determine the optimal bundle(s) for A-76 studies is receipt of information early in the process about whether small businesses are willing and able to provide certain services potentially under review. We were told that in a recent large Air Force A-76 study, the study team planned to set aside two particular services for direct contracts to small businesses. However, a few weeks before proposals for the large bundle were due, the team realized that no small businesses were interested in or able to provide these services. Therefore, the two services were added to the bundled scope of work late in the process, disrupting potential providers' proposal activities and potentially delaying the study process.

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<sup>27</sup>If the SBA later reverses this decision, the Air Force could use a slightly modified version of the proposed methodology to gather the information needed to demonstrate that proposed bundles are necessary and justified. An additional complication arises, however, in determining the unbundled baseline. The Air Force would have to gather information about the cost and performance that *would be* associated with many small contracts as well as with large bundled contracts to demonstrate that the net benefits meet the threshold requirements.