

An organization “bundles” the services that it purchases when it consolidates activities previously provided by separate sources and purchases these services through a single contract from a single provider. Speaking broadly, bundling can take four forms:

- Purchasing two or more separate services—for example, janitorial and building maintenance—from a single provider
- Purchasing a single service previously provided by separate sources—for example, payroll services at separate locations—from a single provider
- Purchasing planning, oversight, or other management services—for example, performance monitoring or coordination—together with the services planned, overseen, or managed
- Purchasing services provided in separate periods of time—for example, successive years—from a single provider under one agreement rather than from several providers under separate agreements.

The frequency of bundling, as defined above, is increasing in the commercial sector. It is growing fastest among firms recognized by their peers as “best in class” in purchasing activities. This persistent and pervasive trend strongly suggests that the buyers and sellers using bundling have discovered benefits that make bundling worthwhile. As we shall see below, many reasons exist to believe that bundling can provide significant benefits in the form of improved performance and reduced costs. Organizations seeking to improve

their own performance or reduce their costs increasingly view bundling as a best-business practice that they want to emulate.

As Air Force organizations become more familiar with these commercial trends, there is growing interest in bundling. But the goals of the Air Force, the Department of Defense (DoD), and other federal organizations differ from those of commercial firms. Federal laws and regulations commit the Air Force and other federal organizations “to insure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government . . . be placed with small business enterprises” and to maintain wherever possible free and open competition among the sources that the government solicits to provide services to the federal government. Strong constituencies, inside and outside the Air Force, ensure that the Air Force takes these goals seriously. When bundling reduces the opportunities for small businesses and thereby either threatens the “fair proportion” of total federal purchases going to small businesses or reduces the number of potential sources competing for work, these constituencies sound the alarm. They ensure that the Air Force fairly and effectively balances any efficiency gains it might receive from bundling the services that it purchases with any negative effects that Air Force bundling might have on small businesses or competition.

To balance the relevant pros and cons of bundling, an Air Force buyer needs a clear definition of the performance and cost improvements offered by bundling in a particular setting that it can weigh against any negative effects on small businesses or competition in that setting. The Small Business Reauthorization Act (SBRA) of 1997 addresses the need for such a definition and provides guidelines for balancing benefits and costs. It allows a federal agency to bundle two or more requirements for goods or services that were previously purchased through separate smaller contracts into a single solicitation, which is unlikely to be suitable for award to a small business, *only* if the benefits associated with such a bundled contract are “measurably substantial” relative to an unbundled baseline. The SBRA interprets benefits broadly to include cost savings and a variety of dimensions of performance improvements such as improved quality. This legislation does not apply when the bundling occurs in the context of an Office of Management and Budget (OMB) Circular

A-76 competitive sourcing study; it does apply to any effort to bundle work provided by existing contracts.

The Deputy Assistant Secretary of the Air Force for Contracting (SAF/AQC) asked RAND's Project AIR FORCE to develop a way to measure and justify the benefits associated with bundling services that addresses the concerns above. The Air Force needs a general way to understand where bundling is compatible with its goals and, specifically, to justify desirable bundles in a way that is compatible with SBRA requirements. This report presents the approach that we developed. It should be applicable in any part of the Air Force, the DoD, or any other federal agency considering the purchase of bundled services.

Our approach identifies the kinds of benefits that bundling can provide. Building on this taxonomy, it proposes a way to elicit the information that the Air Force needs on bundling in a particular setting from providers likely to have that information. And it suggests how the Air Force can integrate market research on bundling with a broader strategic approach to performance-based services acquisition planning to support requests for information on bundling in specific settings.

THE NATURE OF POTENTIAL BENEFITS FROM BUNDLING

Bundling yields benefits in some settings and not in others; some settings offer greater opportunities for benefits than others; and how the bundling is done matters. In this sense, benefits from bundling are very much like those from investments in reliability and maintainability. Like bundling, the reliability and maintainability of complex systems have risen and continue to rise. It is thus clear that investments in reliability and maintainability *can* be beneficial. But it is impossible to predict the size of such benefits outside the context of a specific investment. The engineers designing such investments give careful attention to the technologies in question and make investments that change these technologies in carefully designed ways to get the most from each dollar invested. Exactly the same logic applies to bundling. Officials designing new bundles should give careful attention to the specific activities in question and the opportunities they present to benefit from bundling. They should then

design bundles carefully to take full advantage of these opportunities.

Commercial experience with bundling points to a number of opportunities for bundling that *can* yield benefits if appropriately exploited, depending on the characteristics of the services involved. Some directly reduce costs. Others improve performance and can reduce total ownership cost as a consequence.

Opportunities for cost reductions include the following:

- A wide variety of scale economies in labor that allow the use of fewer personnel
- Greater leverage with a provider's suppliers when it buys in larger volume
- A reduced provider profit margin resulting from greater buyer leverage with a provider
- More efficient use of capital and information assets shared across services in a bundle
- Reductions in a variety of duplicate overhead and management information system expenses.

Opportunities for performance improvements that can reduce total ownership cost include the following:

- Alignment of related elements of a bundle to improve coordination, responsiveness, and accountability
- Alignment of related elements of a bundle to improve buyer-oriented measurement of, and hence continuous improvement of, performance
- Greater buyer leverage to induce a provider to improve performance
- Ease in devolving responsibility to the provider without losing control, which maintains the buyer's management focus
- Greater consistency in service levels across sites

- Reduced turmoil and turnover for the provider’s personnel when bundling stabilizes the workload and expands career opportunities.

These potential benefits are important, but they do not mean that bundles should be infinitely large. Bundling is subject to the same diseconomies inherent in any organization; larger organizations involve more layers of management, less direct communication among decisionmakers, and more opportunities for divergent interests to emerge and dilute a single, unified vision in the organization. Any effort to bundle must offer benefits, like those above, that are large enough to offset these generic and ever-present diseconomies of size. Commercial firms often progressively increase the size of their bundles over time to test which offer benefits large enough to overcome these diseconomies and which do not. Air Force buyers can do the same.

ELICITING INFORMATION ON BUNDLING REQUIRED TO COMPLY WITH THE SBRA

Before proceeding with an acquisition strategy that could lead to a contract containing bundled requirements, the SBRA requires a government agency to conduct market research to determine whether bundling of the requirements is necessary and justified. To be “necessary and justified,” a bundle must yield benefits that exceed a regulatory threshold. The level of the threshold depends on the size of the proposed bundle and the types of benefits used to justify it. Benefits can come from direct cost savings or performance improvements, but all must be stated in clear monetary terms relevant to the thresholds. If the agency expects the bundle to exceed \$10 million a year on average, the agency must provide an analysis of these benefits and develop a plan to protect small businesses affected by the bundle.

When estimating the benefits from a bundle, the estimator must recognize that experienced service providers know a great deal more about the cost and performance implications of the opportunities that bundling offers in a particular setting, as described above, than buyers typically do. Providers create the cost and performance-related benefits described above in the ways that they structure and

manage bundles. They have the best historical experience, planning tools, and expertise to determine what cost and performance-related benefits to expect in a particular setting.

A key principle of performance-based services acquisition says that, in these circumstances, the buyer should develop a method that (1) tells the providers with the best information exactly what it wants and (2) induces them to provide exactly what the buyer wants. If the buyer tried to develop this information itself, it could not exploit the comparative advantage of its potential providers and, as a result, would be unlikely to benefit from the full scope of their capabilities.

To obtain the information that Air Force buyers need to comply with the SBRA, Air Force buyers should use an approach with the following characteristics:

- It should be simple. Providers have many opportunities to sell services to commercial organizations, particularly if they are well regarded. They will invest the resources required to inform an Air Force query only if it is easy for them to do so.
- It should give providers all the information they need to respond. This is one element of simplicity; it makes the providers' job much easier. Beyond this, it is critical to give them enough detail about the particular setting for proposed bundling so that they can accurately apply their experience and models.
- It should comply with all Federal Acquisition Regulations (FAR) requirements to ensure fair communication between an Air Force buyer and potential providers that does not favor or disadvantage any one provider.
- It should protect any proprietary information that providers submit, particularly information that could be considered competition-sensitive in a follow-on source selection.
- It should hold providers accountable for the accuracy of the information they provide. If such information proves to be inaccurate in one bundling review, Air Force buyers should preserve that fact and use it to judge the usefulness of any future submission in another bundling review.

- It should learn from experience. As Air Force buyers and their potential providers address more and more bundling situations, they will all learn more effective ways to elicit and apply the information needed. Air Force buyers should monitor their experience and adjust the process as they accumulate experience with it.

The new form of request for information (RFI) that the Air Force increasingly uses to communicate with potential service providers can be an effective tool for eliciting information about potential bundling benefits while being compatible with the principles above. Because Air Force buyers have considerable experience with this tool, they need learn only to shape it to the particular needs of eliciting bundling information. Important factors include the following:

- Air Force buyers should be clear about what kinds of benefits they value and thus potential providers should consider. This report provides a detailed list based on the benefits discussed in this summary.
- For performance-related benefits, Air Force buyers should provide clear and simple rules on how to translate these into monetary terms relevant to the Air Force's interests. The simplest way to do this will be to express performance-based benefits in terms of their effects on total ownership costs. This is not easy to do. Air Force buyers should continue to work, over time, to provide simple algorithms to do this.
- Air Force buyers should anticipate the calculations that providers must do and provide all the necessary information. Particularly important is detailed information on the unbundled baseline, including all available information on measured performance levels. The more information an Air Force buyer can provide, the more subtlety providers can reflect in their calculations.
- Air Force buyers should seek only enough information to ensure that proposed bundles meet the SBRA's regulatory thresholds. As long as these thresholds are clearly exceeded, a provider need not provide an accurate estimate of additional benefits. Focusing on the threshold should promote simplicity and help potential providers protect their proprietary data.

- As long as thresholds are clearly satisfied, Air Force buyers should promote the use of simplified algorithms that limit the need for detailed calculations, detailed communication between the Air Force and potential providers, and providers guessing about the Air Force's intentions.

This report provides details on how to implement such principles to elicit the information that Air Force buyers need from providers with real bundling experience.

STRATEGIC PLANNING FOR BUNDLING AS ONE ELEMENT OF AN ACQUISITION PLAN

Even though the approach described here devolves a great deal of responsibility to providers, it also places significant demands on Air Force buyers. Buyers must become expert at designing and executing RFIs like those described. They must learn how to frame questions about bundling benefits so that they obtain the information they need. They must learn what information potential providers really need from the Air Force to estimate bundling benefits in particular settings. In particular, they must learn simple ways to value bundling-related performance improvements in monetary terms. They must learn how to judge the responses that they receive from RFIs on bundling benefits, weigh alternative points of view, and produce a consensus product consistent with the Air Force's various goals and SBRA requirements in particular. And Air Force buyers must track statements made by various potential providers and compare their estimates with actual benefits realized from bundling to improve the Air Force's ability to elicit and judge information in the future. Just as outsourcing a service requires the Air Force to maintain a core competency in outsourcing that service rather than providing it, so eliciting bundling information from external sources requires the Air Force to develop and maintain a core competency in eliciting that information rather than providing it in-house.

Core competencies are most effective when institutionalized. Air Force buyers must find institutional homes for the tasks required to elicit and apply information on bundling benefits. In all likelihood, these Air Force buyers do not need new institutions to perform these tasks. Bundling is only one factor considered in acquisition planning.

As Air Force buyers extend the application of performance-based services acquisition to all aspects of acquisition planning, they should include the bundling-related activities discussed here in those plans. The organizations that Air Force buyers set up to conduct continuing market research, conduct effective RFIs, and design performance-based acquisitions should take on the corresponding responsibilities associated with bundling. Such an approach will ensure that the Air Force integrates its bundling decisions with its broader services acquisition agenda and thereby realizes the greatest benefits available from bundling.

Such institutionalization could help Air Force buyers pursue effective bundling strategies even where the SBRA does not apply. For example, a suitably adapted variant on the approach discussed here could be applied in the setting of specific OMB Circular A-76 studies—even though the SBRA does not require buyers to formally justify bundles in that context—to learn about potential bundling benefits there.