Reducing the Cost of Purchased Services:
How Can the Air Force Measure Success?

Purchased services represent the largest category of U.S. government contract expenditures. In 2002, Congress called for the Department of Defense (DoD) to change its contracting and management practices to reduce the cost of buying services over the next decade. The Air Force purchases a variety of services—ranging from groundskeeping to engineering studies—to support its personnel, facilities, and weapons. RAND Project AIR FORCE (PAF) developed a method to measure the Air Force’s progress in meeting these cost-reduction goals. Researchers found that the Air Force needs to improve its data collection and processing to systematically track and analyze the effects that changes in purchasing practices have on costs. The following steps are most important.

• Identify a set of services that could benefit from management reforms.

• Establish the baseline cost for these services. This baseline will allow for consistent comparisons of service expenditures over time.

• Measure the current costs of these services, taking into account management reforms. Assuming that quality remains constant, analysts must adjust for any changes in services associated with evolving Air Force needs and for any variations in the quantities of services purchased.

• Estimate the hypothetical costs that would have been incurred without management reforms. To arrive at the amount that would have been spent under previous management methods, cost analysts should adjust the base-year expenditures to current-year dollars using an inflation index.

• Calculate the amount of savings that result from improved management practices. Analysts should subtract the estimated cost of services with management reforms from the estimated cost without them for current and future years.

PAF researchers are also exploring whether the data currently collected by DoD adequately represent the Air Force's service expenditures. Together these research efforts will allow the Air Force to gauge its success in reducing the cost of purchased services in the coming years.