

Procurement – Outsourcing with lives at stake: ideas practices and lessons from the defence sector

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- Defence and pharmaceuticals very different sectors
 - Though defence is a customer
- Both responsible for human life
- Both have stress on innovation
- How they are organised and run matters

Summary

- Some characteristics of the defence sector
- Determinants of outsourcing stances in defence
- Experiences of defence with outsourcing
 - lessons?
- Comments and questions

Defence characteristics

- The demand for the use of armed forces is difficult to predict
- Need for capacity to provide support for people on a 24 x 365 basis at home and overseas
 - (UK) need to move people from post to post and location to location every two years
 - Possible/likely need to deploy people to (unanticipated) locations of military operations
 - Availability of host nation support?

Defence characteristics

- Defence is capital expensive
 - 20% + of the budget on new equipment
 - Navy and Air Force versus Army perspective
 - 20% of the budget on support for equipment
 - Defence equipment tends to stress top-level performance
 - In-service support costs often exceed R&D costs
 - The estimating and budgeting challenge of annual 'Costs of Ownership'
- Defence and performance
 - 'profit' not available as a metric
- Defence: monopsony and oligopoly in the equipment space

‘Efficiency’ varies with level of effort demanded

- Familiar machines are designed to work at optimum efficiency at a specified level of effort
- For what level of effort should defence be set up to be as efficient as possible?
- Outsourcing relevance?



Outsourcing in defence

Every country is different: shaping factors

Don't outsource

Security of supply is vital

Lack of in-country
capable commercial
entities

Corruption risks

Conscription

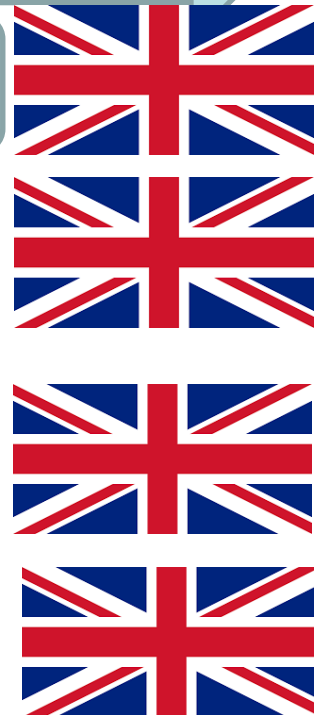
Outsource a lot

Core competence
thinking

New Public Management
Thinking

Confidence in supplier
competence and
procurement machinery

Professional forces



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Professional forces

UK
spends
60-65%
of
defence
budget
on
supplies
of goods
and
services

UK defence buys a very wide range of goods and services



Experience from defence and government?

- Remain an intelligent customer
 - maintain a good internal capability to undertake critical tasks
 - beware outsourcing your brain:
 - MoD ability to regulate effectively?
 - MoD ability to monitor technology advance and assess credibility of bids?
 - MoD reliance on 'customer friend' roles and bodies

Experience from defence and government?

- Remain an intelligent customer
- Beware lock-in to a supplier(s)
 - consider the feasibility of in-sourcing when out-sourcing

Experience from defence and government?

- Remain an intelligent customer
- Beware lock-in to a supplier(s)
- Work on relationships as well as contracts
 - In a dynamic and risky world
 - A defence question: how often do you ask your suppliers to work off contract?

Experience from defence and government?

- Remain an intelligent customer
- Beware lock-in to a supplier(s)
- Work on relationships as well as contracts
- **Manage your supply chain**
 - Understand
 - But defence supply chains are massively complex
 - Act
 - Intervene when needed to maintain capability of valued/scarce suppliers

Experience from defence and government?

- Remain an intelligent customer
- Beware lock-in to a supplier(s)
- Work on relationships as well as contracts
- Manage your supply chain
- Beware of low price offers in highly competitive cases
 - Pressure in government often for lowest price compliant bid
 - Outcomes – bids as lie sheets?
 - Late deliveries, sunk spending and lock-in
 - High cost of contract amendments and in-service support
 - Poor service performance

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- Beware of low price offers in highly competitive cases
- Be sensitive to the need to balance the risks of rapid versus measured decision-making with regard to capturing innovation opportunities

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- Beware of low price offers in highly competitive cases
- Be sensitive to the need to balance the risks of rapid versus measured decision-making with regard to capturing innovation opportunities
- Remember operational and reputational risk cannot be outsourced/transferred

Questions and discussion

**JSP 886
DEFENCE LOGISTICS SUPPORT CHAIN MANUAL**

**VOLUME 6
COMMODITY SUPPLY MANAGEMENT**

**PART 6
SUPPLY OF MEDICAL, DENTAL AND VETERINARY
EQUIPMENT IN THE JOINT SUPPLY CHAIN**



MoD bought thousands of stay awake pills in advance of war in Iraq

Ian Sample and Rob Evans

Thu 29 Jul 2004 12.50 BST



A controversial drug which can keep people awake for days has been bought in significant quantities by the Ministry of Defence, the Guardian has learned.

The MoD has admitted to buying more than 24,000 Provigil pills, which are licensed in Britain only to help people with rare sleeping disorders shrug off daytime sleepiness. Experts say the drug could be used "off licence" to keep pilots and special forces troops awake on little sleep.

According to figures from the Defence Medical Supplies Agency, which provides medical products "to sustain UK military capability", the MoD has been buying the drug since 1998 at prices at least 10% lower than those charged to the NHS.