



## Commercial Purchasing and Supply Management Practices Can Help the Air Force Reduce Costs

The Air Force is under pressure to maintain or improve performance while reducing costs so that it can pay for new weapon systems, force structure, and personnel-retention initiatives. Purchased goods and services—which accounted for 45 percent of the Air Force’s expenditures in fiscal year 2004—are an important place to look for such savings. RAND Project AIR FORCE (PAF) research suggests that the Air Force can benefit from the experiences of innovative commercial firms, which have reduced their own expenditures by adopting new approaches to purchasing and supply management (PSM). Three findings are of particular importance to the Air Force:

- **Successful commercial firms are shifting from a tactical to a strategic approach to PSM.** Rather than focus on individual transactions, these firms set organizationwide goals to improve performance and reduce costs, then track key metrics to hold individuals and teams accountable for meeting these goals. They appoint a chief purchasing officer or vice president of supply management to oversee the shift. They also bring individual acquisition personnel together into integrated teams from across the organization to take a strategic approach to PSM. This approach helps align players associated with PSM activities with the organization’s overall performance and helps reduce or eliminate counter-productive actions.
- **Commercial firms develop formal implementation processes and plans to ensure successful, permanent change.** Implementing new PSM practices requires significant changes throughout an organization. PAF identified the factors that contribute to success and provided a checklist of how to *prepare for*, *support*, and *execute* organizational changes. Failure to address any one of these factors can effectively kill a major effort to change an organization. Thus, a balanced consideration of all these factors is most likely to lead to successful change.
- **Certain practices may help the Air Force implement a new approach to PSM.** The Air Force already has an active program in acquisition reform. Future steps may include the use of market research to discover best commercial practices; performance-based acquisition to align external providers’ incentives with ultimate customers’ needs; best-value competitions rather than low-bid competitions; and new forms of quality assurance that move away from simple checklists to mutual, ongoing efforts to improve processes.

The Air Force has an opportunity to dramatically improve performance and reduce the cost of its purchased goods and services. Taking advantage of this opportunity will require significant changes in the way the Air Force thinks about its structure and manages its resources from day to day. For example, acquisition personnel accustomed to working at the tactical level will require more analytic skills and higher levels of education. Some can get this from training. Others will need to be hired. The Air Force may need to develop strategies to overcome people’s natural tendency to protect their own functions and to reward people for their participation on teams. The experience of commercial firms suggests that such changes can yield substantial benefits in the areas of both performance and cost. ■

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