

LOCKHEED MARTIN ENERGY RESEARCH
CORPORATION

OAK RIDGE NATIONAL LABORATORY

MAKE-OR-BUY PLAN

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**LOCKHEED MARTIN ENERGY RESEARCH CORPORATION
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MAKE-OR-BUY PLAN**

POLICY

It is the policy of Oak Ridge National Laboratory (ORNL) to meet the requirements of the Department of Energy, and other customers, at the lowest possible cost while maintaining core competencies. Performance of non-core competency work may be accomplished by providing "making" services in-house or "buying" services from an outside source. A primary goal is to accomplish the work on a least-cost basis. In those cases where (a) the cost to buy is less than the cost to make and (b) program specific make or buy criteria does not preclude contracting, work will be accomplished by an outside source.

ORNL is guided by our contract with the Department of Energy when placing work with outside suppliers. Other considerations when outsourcing work include but are not limited to:

- Company policy,
- commitments,
- government regulations addressing
 - small businesses,
 - small disadvantaged businesses,
 - women-owned businesses,
 - historically black colleges, universities, and minority institutions, and
 - labor surplus area concerns.

ORNL will comply, where required and for prudent business reasons, with all such requirements.

ORNL promotes internal competition with outside suppliers. If a make-or-buy cost analysis indicates that the cost for providing a function in-house is marginally higher, the in-house group may be given a specified period of time to reduce costs. A cost analysis will be conducted at the end of this period and a make-or-buy decision concluded.

Applicable steps of the make-or-buy process will be implemented for the optimization studies of functions which are currently performed by Lockheed Martin Energy Systems, Inc. (LMES) for ORNL.

DEFINITIONS

Buy Items - Work activity/property/service to be produced or performed by an outside source, including a subcontractor or an affiliate, subsidiary, or division of the Contractor.

Core Competencies - Areas where the Company (a) is expected to be preeminent in product or service quality or cost effectiveness, (b) needs to preserve existing capabilities for an essential and unique technology source; (c) needs to retain capabilities for continuity of research or (d) needs to provide essential capabilities for future or current core competencies.

Make Items - Work activity/property/service to be produced or performed by ORNL using its personnel and other resources.

Outsource - The process whereby the Company obtains needed services or supplies, that were previously provided internally, from an outside source. The term "outsource" is used synonymously with the term "buy" throughout this Plan.

Proprietary Information - Technical data which embody trade secrets developed at private expense, such as design procedures or techniques, chemical composition of materials, or manufacturing methods, processes, or treatments, including minor modifications thereof, provided that such data (a) are not generally known or available from other sources without obligation concerning their confidentiality; (b) have not been made available by the owner to others without obligation concerning their confidentiality; and (c) are not already available to the Government without obligation concerning their confidentiality.

MAKE-OR-BUY PROCESS

Screening

The make-or-buy screening criteria provides a tool for categorizing existing support and service functions as must-make, must-buy, or make-or-buy candidates. The screening criteria include consideration of:

- core competencies,
- outside source availability,
- impact on schedule and operations,
- proprietary information or business interest potential,
- technology transfer and research advancement potential, and
- inherent Company functions.

Only those support and service functions which are performed by distinct and separable work units are considered for make-or-buy categorization. Because of the significant cost of performing make-or-buy studies, only those functions of substantial size will be considered for make-or-buy categorization. Smaller functions may be considered for make-or-buy analysis by the appropriate division or office director. Functions will not be categorized or outsourced where ORNL may provide an unfair competitive advantage to any supplier.

Functions are categorized as must-make, must-buy, or make-or-buy candidates after evaluation against the make-or-buy screening criteria. The functions are categorized by the Make-or-Buy

Steering Committee with the responsible division/office director. The Steering Committee includes:

Associate Director of Operations, Environment, Safety and Health;
Associate Director for Energy and Engineering Science;
Director of Business Management;
Director of the Finance and Budget Division; and
Superintendent of the Personnel Relations Department; and
Make-or-Buy Program Manager.

The Make-or-Buy Study

Make-or-buy studies are completed for those functions categorized as make-or-buy candidates. The study typically includes evaluation of:

service or product availability from outside sources,
a cost comparison,
benchmarking data,
non-cost considerations, and
employee impact.

The OESH Associate Director appoints a team to perform the study. Upon completion of the study a feasibility review is conducted with the Make-or-Buy Steering Committee. The study results are then presented to the Environment, Safety, Health and Quality (ESH&Q) and/or the Operating Committee for their endorsement to the Executive Committee. The Executive Committee decides whether to make or buy the function based on the team's recommendation and the endorsement of the ESH&Q and/or Operating Committee.

Make-or-Buy Study Teams

Make-or-buy study teams will typically consist of:

an independent facilitator,
a subject matter expert,
management and representatives of the subject function,
a human resources representative,
a procurement representative,
a finance and budget representative,
interfacing organization representatives, and
customers representatives.

Bargaining unit representatives will be consulted for those studies which impact union activities to determine if union representatives and/or bargaining unit employees will participate on the team.

Method of the Study

Make-or-buy studies typically include a benchmarking effort to evaluate other government contractors and private organizations performing similar functions. The benchmarking effort attempts to identify organizations that have changed from performing the function in-house to outsourcing the function. Information is collected concerning the type of contract established, impact on service quality, day-to-day operational issues, cost savings data, lessons learned, etc.

The team develops a list of non-cost considerations to bring to the attention of the endorsing and approving committees. Non-cost considerations are those that are specific to the function, difficult to quantify, and are significant in their impact on operations.

An employee impact statement is developed to indicate the number and classification of potentially displaced employees. ORNL's goal is to minimize the impact, when possible, by (a) placing these employees in existing job openings for which they are qualified, (b) retraining these employees for existing job openings when the training can be accomplished in a reasonable time, or (c) recommending these employees as first-choice to be hired by the selected subcontractor.

A cost comparison is developed based on the results of a preliminary inquiry issued to potential suppliers. The preliminary inquiry includes a technical description of the function in a statement of work (SOW). If time and complexity of the function allow, the SOW should be performance based. If not, it may be a specification-type of SOW for purposes of the study. All final SOWs should be performance-based to allow maximum flexibility for potential subcontractors.

The in-house group performing the task develops a cost analysis for performing the function of interest. The team identifies fixed costs that would apply to an outside vendor performing the function. The in-house costs and the contractor cost estimates are normalized for comparison purposes and are validated by a finance officer or manager.

THE MAKE-OR-BUY DECISION

The results of the benchmarking, non-cost considerations, employee impact, and cost analysis are presented to the appropriate committees, i.e., the Make-or-Buy steering committee for review of feasibility and to the Operating or ESH&Q Committees for endorsement to the Executive Committee. The endorsing and approving committee(s) (a) ensure that a complete and impartial cost comparison was provided, (b) ensure that all appropriate interfaces were considered, (c) evaluate non-cost considerations, and (d) evaluate the employee impact

statement. The Executive Committee makes the final decision regarding outsourcing of the function within 12 months after completion of the study.

INTERNAL COMPETITION

If the cost analysis indicates that costs are marginally higher for the Company to perform the service in-house, the in-house group may be given a specified period of time to reduce costs. A cost analysis will be conducted at the end of this period and a make-or-buy decision concluded.

PROCEEDING WITH BUY DECISIONS

The Executive Committee directs the appropriate management to proceed with outsourcing appropriate functions. A Request for Proposal (RFP) will not be pursued unless there is adequate assurance that outsourcing is the more cost effective approach. If an RFP is issued, the technical representative responsible for issuing the solicitation will review the proposals received from bidders in order to compare them with previous in-house costs and the cost estimates included in the make-or-buy study.

If the proposals received exceed the current in-house cost for performing the function when the final statement of work is prepared, the technical representative shall notify the OESH director for reconsideration of the decision by the approving committees.

The technical representative administering the subcontract documents costs associated with the subcontract for comparison with previous in-house costs and the cost estimates included in the make-or-buy study. These cost figures will be provided to the Make-or-Buy Program Manager.

NEW WORK

A separate model is attached showing the criteria to be considered by line managers when evaluating new work to determine if it should be made in-house or outsourced.

REPORTING

The subcontractor's actual cost will be monitored as well as quality of work and compliance with ES&H requirements. The subcontractor's performance will be evaluated to help determine the effectiveness of the Make-or-Buy Program.

Periodic updates will be provided to the Oak Ridge Operations Office indicating the status of categorizations, make-or-buy studies, and outsourcing efforts including full-time equivalent and budget impact.