



Exploring service innovation in Performance Based Contracts in the Swedish defence sector: A case study of the SK 60 trainer aircraft

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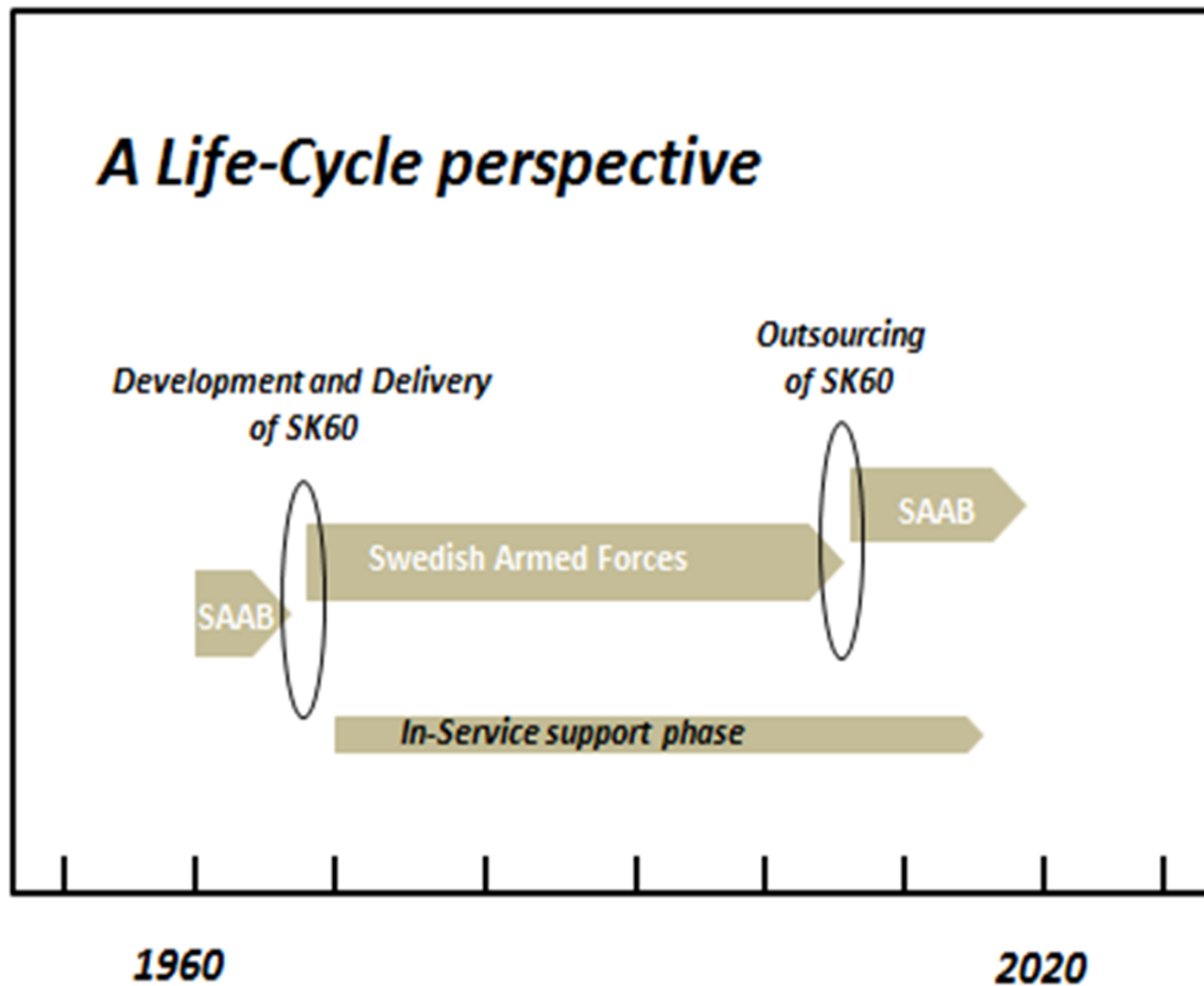
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Aim and research questions

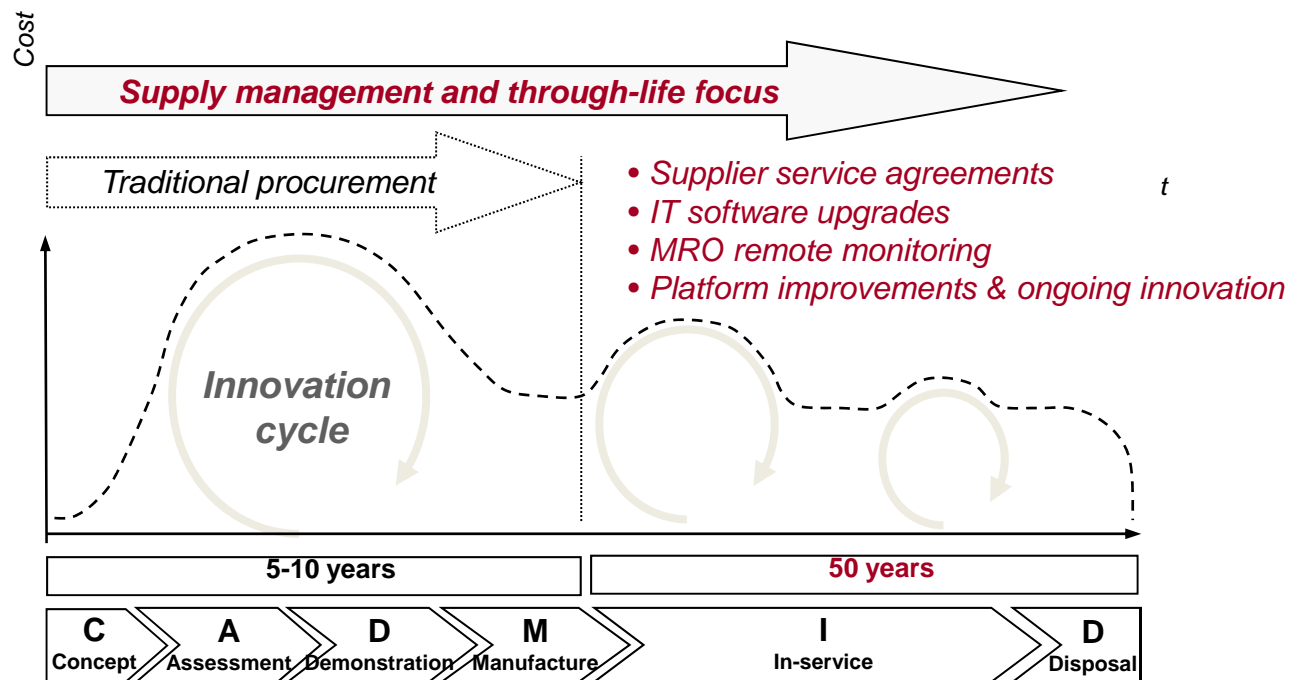
This paper aims to explore service innovation in complex defence acquisition projects.

- 1. What types of values are generated in the PBC from the respective perspectives of the buyer and the supplier?*
- 2. How are these different types of value generated?*

Background: The SK 60 Trainer Aircraft

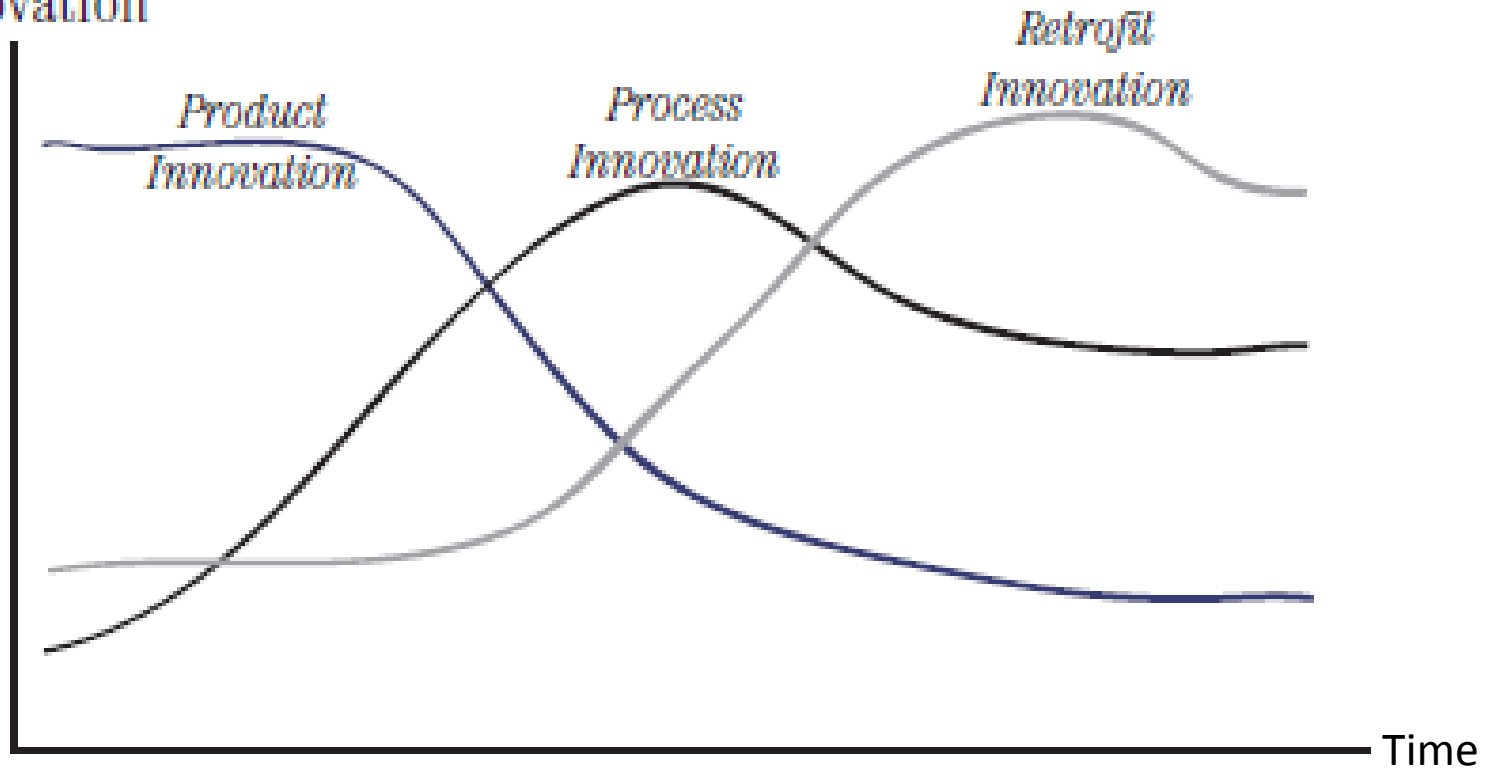


A Life-cycle perspective on innovation



From product innovation to process and retrofit innovation

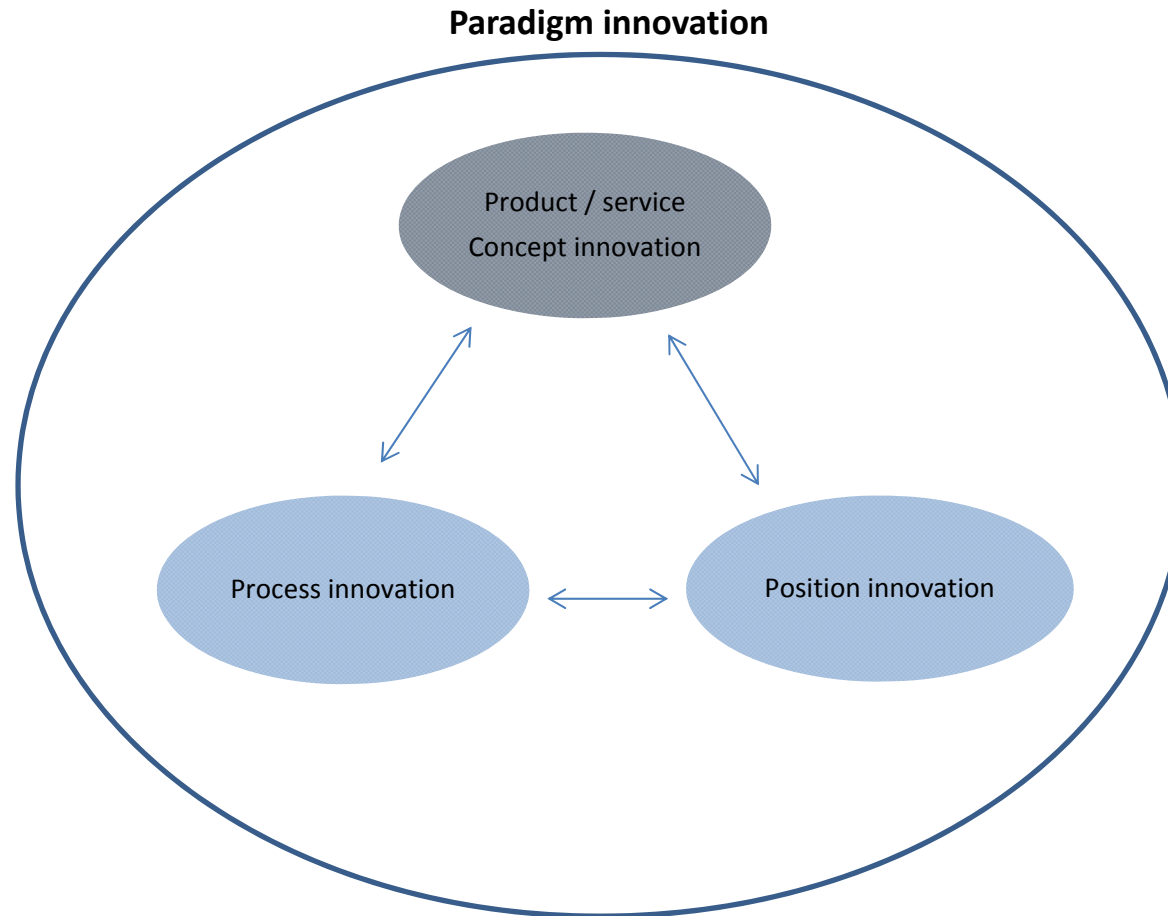
Rate of Major Innovation



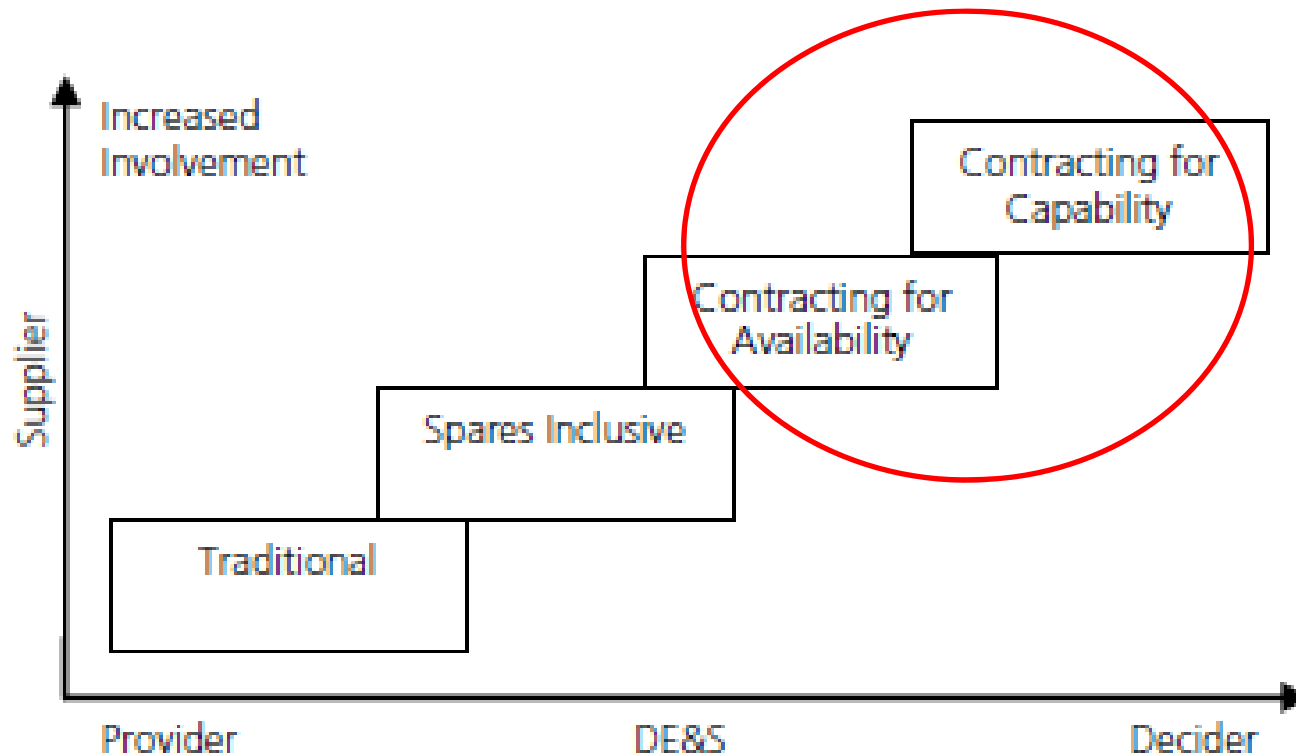
The Defence Lines of Development (DLODs) a way to map and generate service innovations



Four dimensions of service innovation



Performance Based Contracts / Logistics



The Defence Acquisition Transformation Staircase (Source: The UK MoD, 2005c, p 135).

Perceived value – the buyer's perspective

- 95% availability of the SK 60
- Cost has been reduced by 30 %
- Good awareness of total cost on a yearly basis
- Increased knowledge regarding how to contract for availability

Perceived value – the supplier's perspective

- Increased capability to deliver what they refer to as “*Turnkey solutions*”, i.e. to deliver PBC.
- A reference to a PBC project,
- Support to implement a new strategy for Saab.

How is value created?

- value generation is to a large extent, limited to the initial phases of the CADMIT process.
- There are certainly evidence of value creation activities also in the later stages, but these are predominantly of an *ad hoc* nature, and are focused of problem solving, or “*trouble shooting*”, on a day to day basis.
- No formal process service development process exist, new service are generated from a process which builds on a product development process
- neither did they include any outside stakeholders.
- The value was mainly generated by changing three major aspects of the overall system.
 - First of all, the number of operating aircraft was reduced by 50 %.
 - Secondly, the number of operating bases was reduced.
 - Finally, the logistical support system, including fleet management and inventory management, was reorganised. These changes indicate the process innovation in several of the DLoDs.

Implications

- Until now: focus on product innovation
- Required: innovation in every stage of the lifecycle, including aspects such as platform upgrades and continuous improvement throughout the in-service stage (Howard and Caldwell, 2011) .
- In addition: focus on innovation in equipment and support **as well as** all other components of capability, from a lifecycle perspective.
- And: focus on innovation in how we do business