

CONFERENCE CALL



William J. Lynn III, Deputy Secretary of Defense, explained the lessons learned from the four defense spending inflection points since World War II. (U.S. Army photo by Erica Kobren, Defense Acquisition University.)

Finding Efficiencies: A Historical Perspective

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As DOD embarks on the difficult task of saving \$100 billion over the next 5 years by “doing more without more,” senior defense leaders drew on lessons learned to offer insights on how this can be accomplished, at the PEO/SYSCOM Commanders’ Conference, Nov. 2–3, 2010.

William J. Lynn III, Deputy Secretary of Defense (SECDEF), noted that DOD is now in the fifth inflection point in defense spending since World War II. The first three significant downturns—after World War II, the Korean War, and the Vietnam War—were all triggered by the end of conflicts. The fourth occurred when defense spending decreased under President Ronald Reagan toward the end of the Cold War.

Lynn advised that DOD handled these previous four periods of fiscal transition poorly, in different ways; now, in the fifth inflection point, DOD must adopt limited spending to prevent another

transition breakdown. “Our challenge today is to change that [pattern] and manage the transition that we’re in without disrupting the capabilities and the quality of the force that we have today,” Lynn said. “It’s a critical challenge, and it’s going to be a very difficult one.”

Lynn described three lessons learned from the four prior fiscal transitions. The first is to make hard decisions early, which is necessitated by budget pressure and program cost increases. As Lynn advised, “We’re probably at the high point of the budget that we can expect. ... Plus, we’re going to have at least some cost increases. We’re going to

talk about how to limit those, but we’re not going to *eliminate* them. ... If we’re not going to be able to afford it now, we’re certainly not going to be able to afford it in a year or 2 years. So make the hard decisions now.”

DOD also learned that savings can’t be generated entirely with efficiencies. This can be done in some cases, but the bulk of savings is not going to come from pure efficiency. To generate the amount required to meet SECDEF Robert M. Gates’ directive for \$100 billion in cost savings, DOD must prioritize and eliminate less important items in this constrained fiscal environment.

“These aren’t items that don’t have value; they do have value. It’s just in the fiscal environment we’re in, we cannot continue to do them,” said Lynn. He cited as an example the U.S. Joint Forces Command, which Gates has recommended dismantling. “It’s not that Joint Forces Command didn’t have value,” Lynn said. “It played an important role in helping us prove our ability to operate in a joint environment, but it doesn’t merit a 4-star, billion-dollar command at this point in our development. There would be some value in continuing it, but not enough to justify it at that cost.”

A third lesson learned is to balance reductions in the budget. This means “taking money out of the operating accounts, as well as the investment accounts, and doing this in a balanced way,” said Lynn. When asked about the political challenges of achieving efficiencies, Lynn advised, “Politically, we will need to make good on \$100 billion to have credibility. We will have to identify \$100 billion in savings that we’ve achieved out of overhead.”

Frank Kendall, Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)), described the need



ADM Mike Mullen, Chairman of the Joint Chiefs of Staff, advised that balance in both fiscal and capabilities arenas is critical to achieving the Secretary of Defense’s Efficiency Initiatives. (U.S. Army photo by Erica Kobren, Defense Acquisition University.)

to adopt these efficiencies as “simple math.” For example, he said, “the Army has a fleet of 240,000 trucks, and they last about 40 years. To sustain that fleet, you have to buy 6,000 trucks a year.” Kendall advised that DOD doesn’t have money to buy all the items it needs, so it has to pay less in general if the current force structure is to be sustained. There is an absolute requirement to decrease the cost of what DOD buys, or the force structure will need to be reduced—and that is not a viable option without significant negative impacts on our military, he said.

How Efficiency Initiatives Evolved

Lynn advised that under Gates’ leadership, DOD has been on track toward the Efficiency Initiatives. Gates identified the need for them in his Sept. 29, 2008, speech at National Defense University: “The defining principle driving our strategy is balance. I note at the outset that balance is not the same as treating all challenges as having equal priority. We cannot expect to eliminate risk through higher defense budgets—to, in effect, ‘do everything, buy everything.’ Resources are scarce. ... We still must set priorities and consider inescapable tradeoffs and opportunity costs.”

In April 2009, Gates’ ability to, as Lynn noted, “make the hard decisions early” resulted in the curtailment or cancellation of 20 low-priority or low-performance programs, including Future Combat Systems. This eliminated a DOD bill of \$300 billion.

In his remarks at the Eisenhower Library, Abilene, KS, May 8, 2010, Gates established that sustaining DOD’s current force structure—including the quality of its people and technology—would require 3 percent real growth in warfighting accounts, which include modernization, force structure, training, and quality of life for the military. The challenge is that DOD’s budget is set to increase by

only 1 percent real growth. To make up for that difference, Gates advised that DOD needed to look for commensurate savings within the Department.

Gates said, “I am directing the military services, the joint staff, the major functional and regional commands, and the civilian side of the Pentagon to take a hard, unsparing look at how they operate—in substance and style alike. The goal is to cut our overhead costs and to transfer those savings to force structure and modernization within the programmed budget. In other words, to convert sufficient ‘tail’ to ‘tooth’ to provide the equivalent of the roughly 2 to 3 percent real growth—resources needed to sustain our combat power at a time of war and make investments to prepare for an uncertain future. Simply taking a few percent off the top of everything on a one-time basis will not do. These savings must stem from root-and-branch changes that can be sustained and added to over time.”

On Aug. 9, 2010, Gates identified four tracks from which the cost savings will be generated: services and components, outside organizations, Department-wide review to inform the President’s FY12 budget decisions, and the SECDEF-led efforts. His Aug. 16, 2010, *DOD Efficiency Initiatives Memorandum* outlined the initiatives to “reduce duplication, overhead, and excess, and instill a culture of savings and restraint across the DOD.” It instructed how DOD would accomplish the challenge of fiscal savings and budget reduction while supporting the Nation’s troops at war. For the full text of the memorandum, visit <https://dap.dau.mil/Pages/NewsCenter.aspx> and click on “Secretary Gates Announcement About Efficiencies Initiative: 08/09/2010.”

Achieving Balance

Balance in both fiscal and capabilities arenas is most critical to achieving these initiatives. ADM Mike Mullen, Chairman of the Joint Chiefs of Staff, explained to



DOD is faced with the challenge of achieving cost savings while still providing needed capabilities to the warfighter efficiently and quickly. Here, PFC Anthony Berry, Security Forces Advisory Team 4, 1st Heavy Combat Brigade, 4th Infantry Division, patrols around the Operations Coordination Center Province-Kandahar, Afghanistan, Dec. 9, 2010. (U.S. Air Force photo by SrA Daryl Knee, 16th Mobile Public Affairs Detachment.)

the PEO/SYSCOM audience that “budget tipping,” whereby the amount spent from the budget exceeds the amount put into it, will probably continue into the future, making the achievement of balance *now* even more crucial.

Defense acquisition must also find a balance between procuring and fielding the right capabilities, and saving money. Mullen described a “moderate envelope” for program development. “I want risk in the program,” he said. “You can’t zero that. I want to be reaching, but it can’t be perfect, and it can’t be the gold standard in every aspect of the program. Eighty percent is a good target, because we just don’t have the resources to be at 100 percent.”

So, the challenge is cutting back without losing capability. DOD leadership must reevaluate programs, identify requirements, and then produce what will meet those requirements without unnecessary add-ons. Mullen emphasized that making decisions early is imperative, as programs that are instantly vulnerable are those over cost and over schedule. Prevention of problems early is the responsibility of program managers and senior leadership.

However, DOD simultaneously must invest in the future and select key areas

of investment and higher risk, in science and technology and research and development, to mature essential programs and capabilities. “As we get more time at home, [we] need to remind ourselves there are other capabilities besides counterinsurgency warfare,” Mullen said. “We need to be paying a lot of attention to cyber and space areas that are big but [underdeveloped].”

Therefore, while working toward balance today, DOD leaders must also prepare for and integrate systems and programs for the future. Mullen asked the conference attendees to think about, “How do we develop the future through what we’re doing now?” While describing the daunting challenge of developing lead-ahead technologies and capabilities, he expressed optimism that this challenge can be met. “Some of our best capabilities have been evolutionary with a bit of amount of risk to really break through in certain areas,” he said.

Good-News Stories

Dr. Malcolm Ross O’Neill, Assistant Secretary of the Army for Acquisition, Logistics, and Technology, who called the current period “a renaissance” in defense acquisition, discussed some actions the Army has already taken to achieve efficiencies. The use of Capability Portfolio Reviews (CPRs), which help eliminate redundancy, are directly correlated to Under Secretary of Defense (AT&L) Dr. Ashton B. Carter’s initiative of targeting affordability and controlling cost growth (see related article on Page 46). Through these reviews, “We can economize, look at affordability harder, and control cost growth,” said O’Neill.

CPRs enable leadership to look at different systems’ capabilities and make appropriate budgeting decisions. O’Neill advised that through a CPR, leadership found that several systems were aiming at the same capability to engage moving targets. The Non-Line-of-Sight Launch System was found to

have redundant capabilities, and the elimination of that program saved the Army billions of dollars, O’Neill said.

O’Neill also discussed leadership’s decision to help manage services contracting by putting one Deputy Assistant Secretary of the Army (DASA) in charge of them. One of the biggest challenges with service contracts in the Army is that more than 50 percent of the total obligation authority (TOA) is spread *across* the Army; there is more TOA outside the scope of acquisition than within its scope. Having one DASA office in charge of service contracts allows for more efficient management, O’Neill said.

Conclusion

At the PEO/SYSCOM Conference, DOD leadership made clear that no area of defense is changing more rapidly than acquisition. As Mullen put it, “One year ago, ‘efficiencies review’ had not been uttered yet.” Now, efficiency is a critical part of DOD’s decisions and operations.

“Change is now the constant,” Mullen said. DOD leadership needs to figure out how to lead in this environment of change, which is not easy. However, achieving the Efficiency Initiatives is essential to DOD’s fiscal and force structure health. “We can’t afford to defer these decisions, we can’t afford to let over-programming continue, and we can’t continue to erode the taxpayers’ confidence that they’re getting value for their money,” said Lynn. “And, most importantly, we can’t afford to lose the warfighting capability that we built up at great cost to the American taxpayer and has been developed with great sacrifice by our men and women in uniform.”

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