

PATHS TO SUCCESS

AL&T professionals share big-picture insights and program-level advice on the five principal areas of better buying power

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TARGETING REDUNDANCY

The Army's first Capability Portfolio Review, on precision fires, resulted in the cancellation of the Non-Line-of-Sight Launch System (NLOS-LS) program. The NLOS-LS is shown here. (U.S. Army photo.)



By now, the Acquisition, Logistics, and Technology (AL&T) community is well aware of the detailed guidance from Dr. Ashton B. Carter, Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)), on providing incentives for greater efficiency, starting with in his June 28, 2010, Memorandum for Acquisition Professionals *Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending*.

At the Defense Acquisition University (DAU) Acquisition Community Symposium on April 12, practitioners of AL&T had an opportunity to better understand the genesis for Carter's guidance, and resulting steps taken, in five areas of action—targeting affordability and controlling cost growth; incentivizing productivity and innovation in industry; promoting real competition; improving tradecraft in services acquisition; and reducing nonproductive processes and bureaucracy.

Following is a detailed look at each of the five areas, as presented at the DAU symposium.

TARGETING AFFORDABILITY AND CONTROLLING COST GROWTH

Affordability is a straightforward concept, said David G. Ahern, Deputy Assistant Secretary of Defense, Portfolio Systems Acquisition. The difficulty lies in establishing the necessary discipline to achieve it in every program, so that DOD can develop budgets with a “steady, sustainable, and predictable rate of growth” and live within those budgets.

Ahern addressed five steps in Carter's guidance on affordability and controlling cost growth:

- Mandate affordability as a requirement. DOD is looking at affordability holistically, Ahern said. “We don't want to nail it down as a KPP [key performance parameter], as a JCIDS [Joint Capabilities Integration and Development System] sort of thing, but as an acquisition target.” Beyond the range of individual cost factors, “we're looking for how that [cost] profile fits into the overall resources,” specifically within that area of acquisition, be it ships, tanks, trucks, or aircraft, he said. “It is not only the unit [cost], but looking at how many units are going to be bought annually, how much RDT&E [research, development, test, and evaluation] is required, and how that fits into the ongoing TOA [Total Obligation Authority] of the service.”
- Drive productivity growth through will-cost/should-cost management. Of the various program cost estimates to be considered, the will-cost figure is likely to be in line with the service's estimate or the independent cost estimate, if applicable, of the Director of Cost Assessment and Program Evaluation (CAPE) in the Office of the Secretary of Defense (OSD), Ahern said.

The will-cost estimate is “in the absence of some focused attention to do it better,” he noted. In contrast, “What is required of the program managers to come up with a should-cost is not to say, ‘If the will-cost is this profile, I'll just take 5 percent off, or 10 percent off it ... and I'll figure out how to do it.’ ... To get the job done, we need specific opportunities in competition, in changing the configuration, in challenging requirements, in introducing subcontractor competition—some combination of those kinds of activities, with a rifle not a shotgun, to fill up a funnel of opportunities to reduce cost” in development, production, and/or sustainment.

The should-cost estimate will be the number against which the program is tracked, Ahern said. “There should be a delta in outyears between that should-cost and the will-cost. It can be quite significant in some years, and in some years it won't be that significant.”

So what's going to happen to the savings? “We're going to have to figure out collaboratively, in the enterprise, what's the best approach to using that money,” said Ahern, who is of the opinion that “it really belongs to the taxpayers,” not the program manager or even the service. Making a program or product more affordable “is a worthwhile objective regardless” of where the money saved is spent, Ahern said. It may be used to buy more of the item, or be moved to another portfolio, or to the service or OSD to pay other bills. Who makes that decision will depend on how much money is involved and whether it falls in the current year or an outyear, he said.

- Eliminate redundancy within warfighter portfolios. Capability portfolio reviews, such as the Army has adopted, have proved to be a very useful tool by identifying overlaps, he said.
- Make production rates economical and hold them stable. With every production decision, particularly but not exclusively initial production, DOD has taken “a harder look at not the minimum sustaining rate, but the right rate of production,” Ahern said. “There is a value to having the production line open for some period of time. But on the other hand, ... I don't think a 20-year production makes much sense for almost anything,” especially given rapidly evolving technology.
- Set shorter program timelines and manage to them. “The longer a program



COR BRIEFING

Contracting incentives are a large focus of the Better Buying Power Initiatives. Here, BG Tom Cosentino, Deputy Commander, Regional Support, NATO Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan (left), receives an initial briefing from CPT David Dietz, the contracting officer's representative for Regional Support Command-Capital, before the flag-raising at Forward Operating Base (FOB) Deh Sabz in Kabul, Afghanistan, May 12. The ceremony marked the Afghan Army's full control of the FOB. (U.S. Army photo by Jon Connor.)

hangs around, particularly in EMD [Engineering and Manufacturing Development], the more likely it is to get into some kind of trouble," Ahern said. A long EMD phase is usually symptomatic "of a program that hasn't started with the maturest technology ... has not focused enough on engineering and on integration of the various components of it." The time from "the decision to go," the Materiel Development Decision, and Milestone C, marking production and fielding, "needs to be as short as we can ... I think that that A-to-B time, particularly in a competitive environment, ... shouldn't be five years. It should be 18 months, two years, something along those lines."

INCENTIVIZING PRODUCTIVITY AND INNOVATION IN INDUSTRY

Sean Crean, Office of Small Business Programs, was the Task Force Team Leader charged with tackling the problems Carter saw in the incentives arena. At the DAU Symposium, he discussed the team's five specific initiatives and recommended directives that were approved by Carter and given to the services' Component Acquisition Executives for implementation.

- Aligning profit and fee with circumstance. "This was not a discussion about reducing profit," said Crean. Rather, Carter wanted to make sure everybody

understood that the issue was not to look at how profits are derived, but at, "How do I lower my costs? How do I incentivize industry to help me reduce what the costs are?" The task force concluded that the level of profit should be calculated to reward performance, and that the profit on subcontracted work should compensate for the burden of managing subcontractor risk and delivering subcontractor value.

"If we spend a hundred bucks for something, and the contractor's making \$10, we'd rather spend \$90 and let him make \$12. But we don't want to spend \$102 and let him make \$12. We want to pay less," said Shay D. Assad,

Director of the Defense Procurement and Acquisition Policy. “If, in fact, we can incentivize the contractor to provide us products that cost us less, and he makes more doing it, that’s okay ... we’re all for a healthy industrial base.”

- Using proper contract type for development and procurement. “There were too many examples of ‘I’m using a cost-reimbursable contract on this type of program because that’s what has worked on similar types of programs over the years,’ as opposed to ‘Is this the *right* contract type?’” said Crean. The task force learned that contract type was an important way of aligning incentives for the government and the contractor.

The resulting directive was to increase the use of fixed-price-incentive, firm-target contracts where appropriate, using a 50/50 share line and a 120 percent ceiling as a point of departure. Crean stressed the importance of the word “appropriate” in the directive. “The one thing he [Carter] is trying to avoid is the perception of a mandate. What he’s asking is for people to justify ... their determination for using a particular type of contract,” Crean said.

- Sharing the benefits of cash flow. Through their research and case analysis, the task force learned that the government is an exceptionally reliable customer in terms of financing—paying upfront and regularly, sometimes before products are delivered. DOD finances most industry investment needed to prepare products for the defense market, enabling the Department to offer a high cash flow return on invested capital. The task force concluded that DOD therefore should use innovative contract financing methods to incentivize vendors with the time value of money in exchange for lower prices.

The resulting directive was to adjust progress payments to reward performance.

- Rewarding excellent suppliers. “The basis of this [initiative] was, how can we recognize that we’ve got some contractors out there that are doing great jobs?” said Crean. The task force concentrated on the Navy’s Superior Supplier Incentive Program. All benefits from the program are post-award, so preference is not given to organizations to win certain awards.

Carter directed that the Navy continue to lead the pilot but immediately include the other services and DOD components, ultimately transitioning to a full DOD program.

“It gives stockholders, purchasers an opportunity to look at that and say, ‘Hey, there’s a likelihood that person’s going to be a repeat winner and have an opportunity to grow.’ ... to show industry what we care about—publicly,” said DAU President Katrina McFarland, who previously played a key role in the Better Buying Power Initiatives under Carter.

- Protecting the technology base. After the task force learned that DOD reimburses industry as an allowable cost more than \$3 billion annually in independent research and development (IRAD), with no insight into how or where these funds go, Carter directed DOD to align the purpose of IRAD to actual practice. He directed that the Director of Defense Research and Engineering (DDR&E) engage with the largest of the performers of IRAD to collect data on how they have used these funds in recent years. With this information, Carter directed DDR&E to provide a plan for a pilot program, to improve the return on IRAD investment for industry and government.

PROMOTING REAL COMPETITION

Robert M. Griffin Jr., Assistant Commander for Acquisition, Naval Facilities Engineering Command, which leads DOD in competition, headed the Task Force on Promoting Real Competition. “What was amazing to me was that we don’t get the level of competition you would think we would,” said Griffin. “What was more disturbing was when we went out in a ‘competitive’ environment, how often we only got one bid or one offer.”

Studies have consistently concluded that competition drives down prices, Griffin said. Research by the Institute for Defense Analyses (<https://www.ida.org>) and others shows that the savings from true competition range from 5 to 25 percent, depending on what is being purchased.

Carter’s Sept. 14, 2010, memorandum, *Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending*, calls on each agency’s competition advocate to develop a plan to improve, at a minimum, overall competition by 2 percent per year (by moving from a sole-source environment to a competitive one); and effective competition by 10 percent per year (by reducing the number of single-offer competitions).

“We want to improve competition, the big number—all the stuff that historically was sole source under a J&A [justification and authority], plus all of the stuff that was ‘competitive’ but wasn’t effectively competitive because we only got one bid,” Griffin said. “By improving both, we’ll save money.

“Ultimately, PEOs [program executive officers] and PMs [program managers] want the right thing,” Griffin added. “If we make it easier for them to get

competition, if we make it easier for them to evaluate timely, multiple offers, they're going to go for it because they want to get the most for their money, too."

The task force developed a four-pronged approach to achieving greater competition:

- Remove obstacles. Carter directed that contracting officers conduct negotiations with all single-bid offerors unless the requirement is specifically waived by the Head of Contracting Activity, Secretary of the Military Department, or Director of the Defense Agency. "The goal is to make it so difficult for the contracting officer to go out and get one bid, that he or she will do anything they can to go out and get more than one bid," Griffin said. "We're going to punish them if they only get one, so they're going to make sure they get at least two."

For example, a Nov. 24, 2010, Defense Procurement and Acquisition policy memo states that if a solicitation is open for less than 30 days and only one offer is received, the agency must re-advertise the solicitation for a minimum of 30 days. If the solicitation is open for at least 30 days or re-advertisement yields a single offer, the agency must request certified cost and pricing data or other-than-certified cost and pricing data, and conduct negotiations.

- Require open-systems architecture and set rules for acquiring technical data rights. Carter's Nov. 3, 2010 memorandum, *Implementation Directive For Better Buying Power—Obtaining Greater Efficiency and Productivity in Defense Spending*, directed that a business case analysis, in concert with the engineering tradeoff analysis, be presented at Milestone B. The business case analysis is to outline the approach

to open-systems architecture and technical data rights that will be pursued. Analysis will be reported in the Acquisition Strategy Report and in the competition strategy, Griffin said.

The question of how to acquire technical data rights affordably also arose in a separate session at the symposium. Dr. Steven Miller, in the Office of OSD CAPE, said, "I think the most effective time to buy the data rights is when we do the competition," typically at Milestone B. "That's when we're likely to have the most leverage and control over the price."

- Present a competitive strategy at each milestone. While DOD recognizes that some major programs are not suitable for classic head-to-head competition, all programs should have a competitive strategy, Griffin said. Carter's Nov. 3 memorandum directed that a competitive strategy be included in the acquisition strategy before each milestone for Acquisition Category IC, ID, II, III, and IV programs. Agencies also report to USD(AT&L) on how they intend to reduce single-bid competitions, addressing market research, restrictive specifications, and adequate time for proposal preparation. Carter

INDUSTRY DAY

Carter has called for strategies to promote greater competition. Here, exhibitor Joe Bardouche (right), with Pi'ilani, discusses opportunities for their business with another vendor (left) at the Hawaii Army Industry Day at the Hale Ikena Club on Fort Shafter, HI, Nov. 23. (U.S. Army photo by B. J. Weiner, U.S. Army Pacific Public Affairs.)



directed that all agencies achieve a 2 percent reduction in single-bid contracts in FY11, with continuing reductions thereafter.

- Increase the dynamic small business role in defense marketplace competition. Carter's Nov. 3 memorandum directs that all competitive and noncompetitive procurements seek to increase small business participation through weighting factors in past performance and in fee construct.

IMPROVING TRADECRAFT IN SERVICES ACQUISITION

DOD spends about \$200 billion a year on services and about \$178 million on weapon systems. It is taking an especially hard look at knowledge-based services, which include program management, logistics support, and systems engineering support, Assad said.

Not all of those contracts should be fixed-price, he said. "The reality is cost-type contracts might, in fact, be more effective. And right now ... when you look at the three services, we have a very different approach in this world of knowledge-based services." The Navy uses almost exclusively cost-type contracts, Assad said; the Army typically has used time-and-materials contracts; and the Air Force used firm, fixed-price basis.

"So everybody's buying IT, and everybody's buying facility support services, and everybody's buying knowledge-based services, and everybody's buying it differently," Griffin said. That's why the Army and Navy recently appointed senior managers for services, similar to what the Air Force had already done.

The goal is that "everybody's speaking the same language on services, calling the same type of service the same way, looking at the spending information, looking

at the small business community's capabilities, looking at different geographical areas and what the market will give you in those areas, standardizing scopes of work ... so that you guys don't have to start a proposal from Square One every single time you bid on something," Griffin said.

In the Army, "We're certainly looking for opportunities to consolidate" services contracts, said James C. Sutton, Deputy Assistant Secretary of the Army, Services. The review is looking horizontally across six portfolios, and vertically through commands. Metrics are also being developed for an annual review of services

TRANSLATION SERVICES

Identifying best practices in contracting for services is a goal of the Better Buying Power Initiatives. Here, MG Abdul Ameer, the 12th Iraqi Army Division Commander, and COL Ryan Gonsalves, Commander of the 2nd Brigade Combat Team, 1st Cavalry Division, confer with the help of a translator at K-1, a military base in Kirkuk Province, Iraq. (U.S. Army photo by PFC Justin Naylor, 2nd Brigade Combat Team, 1st Cavalry Division Public Affairs.)

REDUCING NONPRODUCTIVE PROCESSES AND BUREAUCRACY

Nicholas M. Torelli Jr., Director of Mission Assurance in the Office of the Deputy Assistant Secretary of Defense for Systems Engineering, served as a co-leader last year of the Acquisition Documentation Streamlining Task Force. The task force examined documents required to support all program milestone and major decision points.

On several occasions, he has asked members of industry to identify what





‘THE BUILDING’

The processes by which acquisition decisions move through the Pentagon and Capitol Hill are being reexamined at all levels to identify and eliminate unproductive steps. (DOD photo by TSgt Andy Dunaway.)

government-imposed areas of cost they find unnecessary.

“They tell me everything we ask them to do is necessary. No, it’s not,” said Torelli, who spent 25 years in industry before coming back into the government. “There are bureaucratic things we put into place because something happened badly once.

“If we are serious about making these kinds of changes—and as you’ve heard, Mr. [Frank] Kendall [Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics], Carter, and the leadership are serious about these changes—let’s identify what they are,” Torelli said.

“We’ve come up with a streamlined, annotated outline. It’s a prep guide so the program manager has something with which he can manage the program,” he said. The documents cover acquisition strategy, the systems engineering plan, program protection plan, and life cycle sustainment plan. “We’re going to do

some oversight, but we’re delegating to the services significantly in places where we can, where Dr. Carter and Mr. Kendall think it’s the right thing to do, and that’s going to streamline your life.”

Torelli also discussed working with Congress to eliminate low-value-added statutory requirements, reducing the volume and cost of internal congressional reports, and creating Defense Acquisition Board decision briefing templates—not “so we can take thought out of the equation,” but “to make you think.”

“There’s an awful lot of what we do [in which] we’re doing to put a check mark in a block because someone said they had to, when, in fact it may not be necessary.”

Reducing nonproductive processes requires everyone’s involvement, Assad said. “If you see something that doesn’t make sense, stand up, talk about it.”

DAU has a website devoted specifically to Better Buying Power, at <https://acc.dau>.

mil/bbp, organized by Carter’s five areas of efficiency. Check it out for news, key documents, frequently asked questions with DOD-approved answers, and interactive discussions of best practices.

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