

DOD EFFICIENCY INITIATIVES NCMA WORKSHOP

Space & Missile Systems Center

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March 15, 2011

Efficiency Initiatives

– 3 Nov Implementation Directive

- Reward contractors for successful supply chain and indirect expense management
- Increase Use of FPIF contract type with 50/50 Share Line and 120% ceiling as a point of departure
- Adjust Progress Payments to incentivize performance
- Make Production Rates economical and hold them stable
- Extend the Superior Supplier Incentive Program (SSIP) to a DOD wide pilot
- Require open systems architectures and set rules for the acquisition of technical data rights
- Increase dynamic small business role in defense marketplace competition
- One bid proposals – require pricing and cost data as appropriate
- Limit the use of T&M and Award Fee contracts for services
- Increase small business participation in providing services
- Reduce non-productive processes and bureaucracy

USD(AT&L)'s Efficiency Initiatives

(5 Major Areas)

- Target Affordability
- Incentivize Productivity & Innovation in Industry
- Promote Real Competition
- Improve Tradecraft in Services Acquisition
- Reduce Non-Productive Processes & Bureaucracy

Director, Acquisition Resources & Analysis will establish tracking system to monitor progress and compliance

Target Affordability & Control Cost Growth

Action	Implementation
<ul style="list-style-type: none"> • Mandate Affordability as a requirement 	<ul style="list-style-type: none"> - <u>15 Nov 2010</u>. Implementation for ACAT I (components to provide implementation schedule for ACAT II and below by 15 Nov 2010)
<p>Milestone A: Establish affordability target - in context of analysis of resources available in portfolio or mission area</p>	<ul style="list-style-type: none"> ➤ Average unit acquisition cost & average annual O&S cost per unit.
<p>Milestone B: Present SE trade-off - analysis showing how cost varies as design and schedule are traded off against each other</p>	<ul style="list-style-type: none"> ➤ Affordability requirement in ADM and APB ➤ Provide trade-off curves or trade space around major affordability drivers ➤ Functional equivalent of KPP for APB
<ul style="list-style-type: none"> • Drive productivity growth through Will Cost/Should Cost management <p>Should Cost' estimates are based on bottom-up assessments of what programs should cost if reasonable efficiency and productivity enhancing efforts are undertaken</p> <p>Basis for contract negotiations, incentives, and tracking contractor, PEO/PM performance</p>	<ul style="list-style-type: none"> - <u>15 Nov 2010</u>. Component's establish 'should cost' targets as management tools for ACAT I - <u>1 Jan 2011</u>. Components establish 'should cost' estimates for ACAT II & III programs as they are considered for milestone decisions

Target Affordability & Control Cost Growth

continued

Action	Implementation
<ul style="list-style-type: none">• Eliminate redundancy within warfighter portfolios	<ul style="list-style-type: none">– <u>1 Oct 2010</u>. OIPT leads recommend list of portfolios, priorities, and schedule for their programs– Components conduct portfolio reviews for selected ACAT II & III programs– <u>1 Mar 2011</u>. Provide one-page report on selection of portfolios for review and results of the reviews
<ul style="list-style-type: none">• Make production rates economical and hold them stable	<ul style="list-style-type: none">– <u>1 Jan 2011</u>. ACAT I – one page description of how production rate & schedule were set<ul style="list-style-type: none">➤ Define production rate change limits based on MS A or B affordability assessments➤ Deviations from limits require USD(AT&L) approval prior to implementation
<ul style="list-style-type: none">• Set shorter program timelines and manage to them	<ul style="list-style-type: none">– <u>15 Nov 2010</u>. Schedule justified at MS B<ul style="list-style-type: none">➤ Based on affordability trades➤ Deviation without approval could lead to revocation of milestone

Incentivize Productivity & Innovation in Industry

Action	Implementation
<ul style="list-style-type: none">• Reward contractors for successful supply chain and indirect expense management	<ul style="list-style-type: none">– <u>15 Nov 2010</u>. Incentive strategy behind profit policy, including consideration of breakout where appropriate, in acquisition strategy for ACAT ID– <u>1 Dec 2010</u>. DPAP will review Weighted Guidelines for profit with aim of emphasizing tie between profit and performance– <u>1 Jan 2011</u>. Incentive strategy behind profit policy, including consideration of breakout where appropriate, in acquisition strategy for all programs
<ul style="list-style-type: none">• Increase use of FPIF contracts where appropriate using 50/50 share line and 120 percent ceiling as point of departure	<ul style="list-style-type: none">– <u>Immediately</u>:<ul style="list-style-type: none">➤ Greater consideration to FPIF contracts for efforts moving from development to production➤ justification for contract type for each proposed contract above \$100M➤ FPIF contracts with 120% ceiling and 50/50 share ratio should be norm for all programs

Incentivize Productivity & Innovation in Industry, continued

Action	Implementation
<ul style="list-style-type: none"> • Adjust progress payments to incentivize performance 	<ul style="list-style-type: none"> – <u>Immediately</u>. DPAP develop cash flow model and provide guidance for use of preferred hierarchy of innovative financing methods described in the model that considers lifecycle phase of weapon system programs. Emphasis on flow-down provisions to subcontractors as well – <u>1 Jan 2011</u>. Components identify pilot programs to use innovative financing methods as a negotiating tool
<ul style="list-style-type: none"> • Extend Superior Supplier Incentive Program (SSIP) to a DoD-wide pilot 	<ul style="list-style-type: none"> – <u>1 Jan 2011</u>. DPAP to establish SSIP based on Navy pilot program.
<ul style="list-style-type: none"> • Reinvigorate industry's independent research and development (IRAD) and protect the defense technology base 	<ul style="list-style-type: none"> – <u>Immediately</u>. Components support DDR&E program to reinvigorate IRAD and create other incentives for industry to conduct more defense-related R&D <ul style="list-style-type: none"> ➤ Includes enhancing SBIR program to promote role of small business in supporting DoD IRAD needs

Promote Real Competition

Action	Implementation
<ul style="list-style-type: none">• Present a competitive acquisition strategy at each program milestone	<ul style="list-style-type: none">– <u>Immediately</u>. One-page competitive strategy for ACAT ID– <u>1 Dec 2010</u>. One page competitive strategy for ACAT IC, II, III and IV– Components report to USD(AT&L) on intent to reduce single-bid competitions<ul style="list-style-type: none">➤ Address market research, restricted specs & adequate time for proposal prep. Achieve 2% reduction in single-bid competitive contracts in FY 2011, with continuing reductions thereafter
<ul style="list-style-type: none">• Increase dynamic small business role in defense marketplace competition	<ul style="list-style-type: none">– <u>1 Dec 2010</u>. All competitive and non-competitive procurement actions will seek to increase small business participation through weighting factors in past performance and in fee construct

Promote Real Competition, continued

Action	Implementation
<ul style="list-style-type: none">• Remove obstacles to competition<ul style="list-style-type: none">– Ensure contracting officers conduct negotiation with single bid offerors– Competition advocates will develop plan to improve competition– Require cost or pricing data on single offers– Require open system architectures and set rules for acquisition of technical data rights	<ul style="list-style-type: none">– <u>15 Nov 2010</u>. Component contracting officers conduct negotiations with all single proposal offerors. Basis will be cost or price analysis, as the case may be, using certified or non-certified data cost or pricing data as appropriate.– <u>1 Dec 2010</u>. Component competition advocates will develop plan to improve overall rate of competition at least 2% per year and 10% per year for effective competition– <u>15 Nov 2010</u>. Business Case Analysis due at MS B outlining approach for open systems architectures, and tech data rights government will pursue to ensure lifetime consideration of competition

Improve Tradecraft in Services Acquisition

Action	Implementation
<ul style="list-style-type: none"> • Create a senior manager for acquisition of services in each component, following the Air Force's example 	<ul style="list-style-type: none"> – <u>15 Nov 2010</u>. Components provide plan to establish senior manager for acquisition of services at GO/Flag/SES level <ul style="list-style-type: none"> ➤ Senior manager will be decision authority for services acquisitions valued at less than \$250M.
<ul style="list-style-type: none"> • Adopt uniform taxonomy for different types of services 	<ul style="list-style-type: none"> – <u>Immediately</u>. Use Product Service Code (PSC) categories from Product Service Code Manual https://www.acquisition.gov/service_product_codes.pdf
<ul style="list-style-type: none"> • Address causes of poor tradecraft in services acquisition <ul style="list-style-type: none"> – Assist users of services to define requirements and prevent creep via requirements templates 	<ul style="list-style-type: none"> – <u>1 Dec 2010</u>. Components develop plan to strengthen and improve use of market research in order to understand industry's capabilities and pricing strategies. – <u>1 Jan 2011</u>. Components standardize method for acquiring services through development and use of standard templates in developing Performance Work Statements <ul style="list-style-type: none"> ➤ Coordinate w/DPAP to ensure consistent approach across DoD

Improve Tradecraft in Services Acquisition, continued

Action	Implementation
<ul style="list-style-type: none"> • Address causes of poor tradecraft in services acquisition (continued) <ul style="list-style-type: none"> – Enhance competition by requiring more frequent re-competes of knowledge-based services 	<ul style="list-style-type: none"> – <u>1 Jan 2010</u>. Components report results of review of length of time knowledge-based service contracts are scheduled to remain in effect before re-compete – <u>1 March 2011</u>. Components provide plan to bring knowledge-based services contracts into closer compliance with a three year limitation
<ul style="list-style-type: none"> – “1-bid” Proposals 	<ul style="list-style-type: none"> – 1 Dec 2010. When “1-bid” proposals are received, require pricing and cost data as appropriate. <ul style="list-style-type: none"> ➤ Solicitations receiving only 1-bid, that were open to industry for less than 30 days, are to be re-advertised for a minimum period of an additional 30 days unless a waiver is obtained from the Head of Contracting Activity (HCA).

Improve Tradecraft in Services Acquisition, continued

Action	Implementation
<ul style="list-style-type: none"> • Address causes of poor tradecraft in services acquisition (continued) <ul style="list-style-type: none"> – Limit the use of time and materials and award fee contracts for services 	<ul style="list-style-type: none"> – <u>Immediately</u>. Absent robust competition or lack of competitive history, ensure services acquisitions are pre-disposed toward Cost-Plus-Fixed Fee (CPFF) or Cost-Plus-Incentive Fee (CPIF) arrangements – When robust competition exists, or there is recent competitive history, ensure services acquisitions are predisposed toward Firm-Fixed Price (FFP) contracts
<ul style="list-style-type: none"> – Require that services contracts exceeding \$1B contain cost efficiency objectives 	<ul style="list-style-type: none"> – <u>Immediately</u>. Components will ensure that services contracts valued at more than \$1 billion contain provisions to achieve productivity improvements and cost efficiencies throughout the term of the contract.
<ul style="list-style-type: none"> • Increase small business participation in providing services 	<ul style="list-style-type: none"> – <u>Immediately</u>. DPAP ensure Office of Small Business Programs is included as member of OSD peer reviews of service acquisitions – <u>1 Jan 2011</u>. Components seek opportunities to compete Multiple Award/IDIQ contracts among small businesses

Reduce Non-Productive Processes & Bureaucracy

Component Actions	Implementation
<ul style="list-style-type: none">• Assess all internal reviews	<ul style="list-style-type: none">– <u>15 Nov 2010</u>: Complete assessment of all internal reviews to ensure they focus major acquisition investment decisions
<ul style="list-style-type: none">• Review acquisition documents for redundancy with OSD – required documents	<ul style="list-style-type: none">– <u>1 March 2010</u>: Complete review of all component required acquisition documents for redundancy with OSD – required documents and delete redundant and non-value added content
<ul style="list-style-type: none">• Bottom-up review of all internally generated reporting requirements	<ul style="list-style-type: none">– Assess value of reports with goal to eliminate at least 50%– Substantially shorten reports that remain– Immediately. Assign page count caps when lead responsibility for report is assigned

Reduce Non-Productive Processes & Bureaucracy

OSD Actions	Implementation
<ul style="list-style-type: none"> • Reduce number of OSD-level reviews to those necessary to support major investment decisions or to uncover and respond to significant program execution issues 	<ul style="list-style-type: none"> – <u>1 Dec 2010</u>: D, ARA recommend realignment of OSD reviews – <u>1 Nov 2010</u>: DDR&E reorient TRL reviews to original intent & propose mechanism to provide assessments of engineering & integration risks at major investment decisions – <u>1 Mar 2011</u>: D, ARA complete review of all acquisition documents
<ul style="list-style-type: none"> • Eliminate low-value-added statutory processes • Reduce by half the volume and cost of internal and congressional reports 	<ul style="list-style-type: none"> – D, ARA to review all internally generated and congressionally mandated reports – <u>Immediately</u>: Impose reasonable page count
<ul style="list-style-type: none"> • Reduce non-value-added overhead imposed on industry 	<ul style="list-style-type: none"> – D, Industrial Policy, w/ DPAP, to more fully survey our industrial base
<ul style="list-style-type: none"> • Align DCMA and DCAA processes to ensure work is complementary 	<ul style="list-style-type: none"> – <u>1 Dec 2010</u>: DPAP recommends guidance on roles and responsibilities of DCMA & DCAA
<ul style="list-style-type: none"> • Increase use of Forward Pricing Rate Recommendations (FPRRs) to reduce administrative costs 	<ul style="list-style-type: none"> – <u>1 Oct 2010</u>: DPAP tasks DCMA to be responsible for all FPRRs

WHAT TO EXPECT

- WHERE ARE WE HEADED?
 - Initiatives not about profit/fee – focus on cost reduction
 - More Oversight – DCAA, GAO, IG, Auditors
 - More HQ involvement in Acquisition Decisions (Clearances, Acquisition Planning etc.)
 - Do more with less or “More without More”
 - FIXED-PRICE CONTRACTS – control costs
 - Harsher Penalties for Failure (Schedule & Cost)
 - Less Team Orientation – Possibly More Adversarial
 - More Competition – REAL Competition
 - Need for a Paradigm Shift
 - More Help from our friends in Congress
 - Back to the 90’s?

WHAT TO EXPECT

- **Performance Based Payments Analysis Tool**
- (DOD PBP Tool Version 1.0)
- The amount and timing of contract financing has a direct impact on the cost to the Government and the financial outcome to the contractor as measured by the Internal Rate of Return (IRR) and Net Present Value (NPV) of the contract cash flows. The purpose of this tool is to demonstrate the financial impact to both the Government and the Contractor of using Performance Based Payments (PBPs) versus Customary Progress Payments.
- **A Win-Win**
- PBPs offer a unique opportunity for a real "Win-Win" financial arrangement for the Government and the contractor. This opportunity presents itself due to the Government and the contractor having differing views of the time-value of money. The "Win" for the contractor is better cash flow resulting in a more favorable financial outcome as measured by the IRR and NPV of the cash flows at a reduced contract price.
- The "Win" for the Government is a lower contract price that more than offsets the additional financing costs of providing a better cash flow to the contractor. The PBP Analysis Tool employs a discounted cash flow analysis to help the contracting officer to determine the Win-Win financial solution for any PBP arrangement. The tool provides a unique and simple to use "what if" feature on the timing of PBP event completion and payment that enables both sides to objectively assess the potential risk of PBPs in determining the Win-Win solution.
- **Progress Payments – the Benchmark**
- Customary Progress Payments are used as the benchmark for determining a Win-Win arrangement for several reasons. First and Foremost, in [Dr. Carter's September 14, 2010](#) memo, he stated *"I expect that the basis of negotiations shall be the use of customary progress payments. After agreement on price on the basis of customary progress payments, the contractor shall have the flexibility to propose an alternate payment arrangement for the Government's consideration"*, such as PBPs.
- Second, progress payments are the financing method most commonly utilized between the Government and Industry. And third, progress payments are considered by industry to be a low-risk form of financing. For these reasons, the Customary Progress Payment scenario is the right financial benchmark for a risk/reward analysis.
- **The Tool**
- The tool is available in the Excel 97-2003 version. The tool uses XNPV and XIRR functions which are standard functions in Excel 2007 and later versions but are only contained in Microsoft's Analysis Toolpak on earlier versions. Under the "Important Notes" section of the Instructions worksheet tab in the tool are the steps needed to enable the Analysis Toolpak in Excel 97-2003. A "DOD PBP Tool (Version 1.0 Demo)" model which provides an example of a win-win arrangement is also available for download. We welcome your questions and comments on the tool, which you may send to costandprice@osd.mil.
- [DOD PBP Tool \(Version 1.0 Demo\)](#) – Example of how the model can be used to provide a win-win arrangement
- [DOD PBP Tool \(Version 1.0 – Excel 2007\)](#) – PBP tool for Excel 2007 version
- [DOD PBP Tool \(Version 1.0 – Excel 1997-2003\)](#) – PBP tool for Excel 1997-2003 versions

QUESTIONS?

