

DoD Acquisition – Changing Environment

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9-11-01, Everything Changed . . .



Defense spending Doubled

GAO Report – Misaligned Value and Defense Spending

*“U.S. weapons are among the best in the world, but the programs to acquire them often take significantly longer and cost more money than promised and often deliver fewer quantities and capabilities than planned. It is not unusual for estimates of time and money to be off by 20 to 50 percent. **When costs and schedules increase, quantities are cut, and the value for the war-fighter—as well as the value of the investment dollar—is reduced.**”*

GAO Report
2005



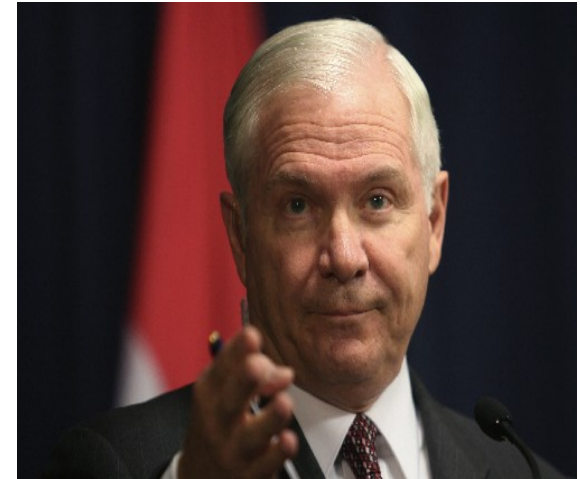
President Obama's March 4, 2009 Memorandum on Government Contracting

“The Federal Government has an overriding obligation to American taxpayers. It should perform its functions efficiently and effectively while **ensuring that its actions result in best value for the taxpayer.**”

Secretary Gates Acquisition Improvement Initiative

Press Conference – April 6, 2009

“We must estimate realistic program costs, provide program stability..., adequately staff the government acquisition team and provide constant oversight... We must guard against requirements creep, fund to the Independent Cost Estimate and demand stricter contract terms and conditions.”



Eisenhower Library - May 8, 2010

“The Defense Department must take a hard look at every aspect of how it is organized, staffed, and operated – indeed, every aspect of how it does business... is this activity or arrangement the best use of limited dollars, given the pressing needs to take care of our people, win the wars we are in, and invest in the capabilities necessary to deal with the most likely and lethal future threats?”

The Carter Mandate - “Better Buying Power”

On June 28th Dr. Carter met with Industry, DOD Acquisition Team, and the press

- **Deliver the warfighting capability we need for the dollars we have**
 - **Better buying power for war fighter and taxpayer**
 - **Restore affordability to defense goods and services**
 - **Remove government impediments to leanness**
 - **Maintain a vibrant and financially healthy defense industry**
 - **Improve defense industry productivity**
 - **Avoid program turbulence**
- **Obtain 2-3% net annual growth in warfighting capabilities *without* DoD budget increase**
 - **Identify and Eliminate low-value-added overhead and transfer savings to warfighting capabilities.**
 - **Do more without more.**



The DoD Efficiency Initiative – Strategic Thrusts

August 9, 2010

Four Tracks -

Track 1: Services and Components

- Services assigned goals to find overhead savings totaling \$100B over 5 years.
- Services will use their savings reinvest in higher priority warfighting needs and modernization programs.
- Services authorized to consider consolidation or closure of excess bases and facilities.

Track 2: Outside organizations

- Seeking ideas, suggestions, and proposals from outside normal, official channels.
- Think-tanks, industry, and Department external board are all contributing

Track 3: Department-wide review to inform President's Budget -2012 Decisions

- A series of assessments of how DoD is organized and operated.
- USD(AT&L) initiative to improve efficiency & reduce costs in the contracting arena

Track 4: SecDef-led efforts

- Focus on areas where action can be started now and not wait for the normal budgeting and program process.
- Reduce duplication, overhead, and excess Defense enterprise and instill a culture of savings

Summary of Carter Initiatives – Better Buy Power

14 September memo

- **The Carter Initiatives numbered 23, five (5) major categories:**
- **Target Affordability and Control Cost Growth**
 - Mandate Affordability as a requirement
 - Drive Productivity growth through Will Cost/Should Cost management
 - Eliminate redundancy within warfighter portfolios
 - Make production rates economical and hold them stable
 - Set Shorter program timelines and manage to them
- **Incentivize Productivity and Innovation in Industry**
 - Reward contractors for successful supply chain and indirect expense management
 - Increase the use of Fixed-Price Incentive Firm Target (FPIF) contract type where appropriate using a 50/50 share line and 120 percent ceiling as a point of departure
 - Adjust progress payments to incentivize performance
 - Extend the Navy's Preferred Supplier Program as a DoD-wide pilot
 - Reinvigorate industry's independent research and development and protect the defense technology base

Summary of Carter Initiatives

- **Promote Real Competition**
 - Present a competitive strategy at each program milestone
 - Remove obstacles to competition
 - Increase dynamic small business role in defense marketplace competition
- **Improve Tradecraft in Services Acquisition**
 - Create a senior manager for acquisition of services in each component, following the Air Force's example.
 - Adopt uniform taxonomy for different types of services
 - Address causes of poor tradecraft in services acquisition
 - Enhance competition by requiring more frequent re-compete of knowledge-based services
 - Limit the use of time & materials & award fee contracts for services
 - Require that services contracts exceeding \$1B contain cost efficiency objectives
 - Increase small business participation in providing services

- **Reduce Non-Productive Processes and Bureaucracy**
 - Reduce the number of OSD-Level reviews to those necessary to support major investment decisions or uncover and respond to significant program execution issues
 - Eliminate low-value-added statutory processes
 - Reduce by half, the volume and cost of internal and congressional reports
 - Reduce non-value added overhead imposed on industry
 - Align Defense Contract Management Agency (DCMA) and Defense Contract Audit Agency (DCAA) processes to ensure work is complementary
 - Increase use of Forward Pricing Rate Recommendations (FPRRs) to reduce administrative costs

Industry and DoD – Constructive Engagement in Changing Environment

“..... Last year, the Department made more than 30 tough choices in this area, cancelling or curtailing major weapons systems that were either performing poorly or excess to real world needs – about \$330 billion dollars worth as measured over the life of the terminated programs. We also began to overhaul the Pentagon’s processes for acquisitions and contracting.”

**Robert M. Gates
Secretary of Defense, May 8, 2010**

Strategic choice and decisions will be critical for success.

Contracting Organizations Must be Prepared

- **Accelerated acquisition and contracting changes will occur at a time when companies' demographics indicate a large number of retirement eligible population**
- **Is your Contracts organization trained? Do you have plans to backfill the retirement-eligible knowledge base?**
 - **The contracting community must know, understand and be able to engage constructively**
 - **Be part of the solution and align with the DoD initiatives**
 - **Understand the risks going forward, engage in open dialogue to find balanced solutions**
 - **Stay abreast of evolving policy and regulatory changes**

In Summary

- **We have been here before - defense market downturns are not new**
- **What is different now, is the vertical and horizontal alignment from President Obama to Secretary Gates to Dr. Carter to the Services to the program teams at the negotiating tables**
- **Establishing consistent policy and building constructive partnering is hard and it is evolving**
 - **Specifics of policy and regulation will take shape over time - there will be examples of both good and bad policy deployment**
- **This is not an anti-industry/contractor initiative. Both Secretary Gates and Dr. Carter acknowledge industry is key for future success.**
- **The contracting community, for both industry and government are critical for success.**

NORTHROP GRUMMAN

