

The State of Defense Acquisition

A Summary of the Defense One Live Panel Discussion



by
Ted Sniffin
sniffin_ted@bah.com

Booz | Allen | Hamilton

delivering results that endure

Budget Uncertainty Seen as Greatest Hurdle to Defense Acquisition

On October 6, 2015, Mr. Frank Kendall, Under Secretary of Defense for Acquisition, Technology and Logistics, and the Service Acquisition Executives provided a message of encouragement to the acquisition faithful at “The State of Defense Acquisition” presentation underwritten by Booz Allen Hamilton and hosted by Defense One Live in Arlington, VA. Kendall and his Acquisition Chiefs identified challenges, acknowledged accomplishments and shortcomings, and debunked myths in the 2-hour session.

Positive Trends at Risk from Continuing Resolution

Using data to highlight several positive trends in the defense acquisition environment during the Carter-Kendall regime, Mr. Kendall demonstrated that “per dollar, things are getting a lot better.” However, when joined by his team of SAEs, there was universal agreement that sequestration, or worse still a prolonged Continuing Resolution (CR), will hamper the progress made in ensuring that the US warfighter remains technologically superior.

Ms. Heidi Shyu, Assistant Secretary of the Army (Acquisition, Logistics and Technology) cited how the last CR affected more than 400 programs. Specifically, major programs like the Apache cannot procure the quantities it intends, and the Armored Multi-Purpose Vehicle (AMPV) cannot ramp up the RDT&E efforts it needs.

Similarly, Mr. Sean Stackley, Assistant Secretary of the Navy (Research, Development and Acquisition), reminded everyone that we’re still recovering from the sequestration of 2013. The \$11B impact to the Navy included ships and aircraft that sacrificed much needed maintenance, and new starts that were deferred.

Assistant Secretary of the Air Force (Acquisition), Dr. William Laplante cited fear that a year-long CR could cause the first-ever break in a defense multi-year

contract (on the C-130). Laplante provided examples of how the 4-day work week and 20 percent pay cut for civilian employees (which they never got back) injected unimagined inefficiencies and actually added costs to several programs. Without a known budget, the Space Fence program could not award the development contract as scheduled. By the time budgets were finally resolved, contractor proposals had expired and the entire source selection process had to be re-done, costing \$120M and delaying IOC by a year. Despite these challenges, Laplante indicated that the Air Force is prepared to award the Bomber contract under a CR if necessary.

Kendall further opined that milestone decisions are not particularly difficult since so much preparatory work is done in advance of the Defense Acquisition Board (DAB) meetings (milestone decisions are not made in a single meeting, contrary to popular perceptions). However, decisions to release solicitations for major contracts are much more difficult, especially with uncertain budgets under a CR.

Calendar 2016 Priorities

Kendall and the acquisition chiefs were also united in their objectives for the rest of the Administration’s term. Kendall identified the following in his remarks: cost consciousness; incentives to industry; workforce professionalism; and innovation and technological excellence as the Department’s priorities. Shyu recognized affordability, program execution, and the acquisition workforce as the Army’s priorities over the next calendar year. Stackley stressed how important it is to get requirements right; how the Navy cannot afford to let volatile budget swings affect its 30-year plans for the capital intensive acquisition and sustainment of ships and aircraft, and how critical it is to retain the technical excellence of its acquisition workforce. Laplante indicated that building back the workforce decimated under the Total System

Performance Responsibility (TSPR) era; achieving Should Cost savings; keeping the Joint Strike Fighter, the Tanker, and the Bomber programs on track; and institutionalizing prototyping are among the Air Force's top acquisition objectives.

Kendall further pointed out that success requires the alignment of many things: requirements, budgets, risk, leadership, contracts, industrial base, and more. It starts with requirements, and he encourages his Acquisition Chiefs to work with the Services to better define the value of the threshold requirement and their willingness to pay for the objective requirements, so contract specifications can be better aligned to affordability realities.

NDAA Provides SECDEF Latitude, but Penalties for Cost Breaches Not Practical

"The simple answer is that we will follow the law," Kendall said when asked about the National Defense Authorization Act (NDAA). He is encouraged by indications that the Department and Secretary of Defense will be provided "a lot of latitude." Although it needs to be studied further, Kendall indicated the three percent "tax" on the Services for Nunn-McCurdy breaches are not enough to fund the R&D accounts they are intended to supplement. As a practical matter, the penalty won't apply to two of the three Services, as is, and will only collect about \$20M from the Service with a breach. Although it won't be implemented until calendar 2017, giving the Department time to prepare for the impact—the legal issue of how monies will actually move between appropriations has not yet been addressed.

"In God We Trust, All Else Bring Data"

In keeping with his commitment to drive acquisition policy based on data, Kendall provided excerpts from the 2015 Annual Report, Performance of Defense Acquisition System, and included findings from the compendium of Program Manager Assessments that his office is publishing, that showed program development and program procurement costs are trending downward. The data also indicate how Should Cost policy initiated in 2010 is yielding positive

results. Additionally, Nunn-McCurdy breaches are down, small business share is up, the sustainment of award protests is down, contract-cost-to-target indicators are improving, and contract lengths are shortening. Analyses by IDA provided interesting findings regarding the correlation between program acquisition unit costs and the budget climate. When budgets are tight, there is high PAUC growth; when budget are obliging, there is low PAUC growth. An interpretation, which is still under investigation, is that when money is tight, programs and contractors talk themselves into overly optimistic forecasts and greater risk taking, respectively. Programs that commit to optimistic cost baselines and award priced-to-win contracts predictably result in having significant "cost growth."

Technological Superiority at Risk

Our technological rate of advancement hasn't changed significantly since 1991. According to Kendall, "The R&D investment portfolio has come down substantially." He doesn't "think we're doing enough," and indicated that "the Army has very little in its pipeline right now in terms of modernization." To push the state-of-the-art requires taking chances and replenishing the budgets, but distractions from counter-insurgent campaigns and affordability challenges are inhibiting our ability to do this.

Prototyping, Experimentation, Innovation, and Commercial Items

All Services indicated they are doing significant prototyping and experimentation. Shyu pointed to the flight demonstrator the Army is using to influence Future Vertical Lift requirements. Stackley said the Navy is working with industry in experimentation activities tied to fleet capabilities. Laplante indicated how the Air Force is using operators to introduce innovations beyond technical improvements as it experiments and prototypes with air dominance.

When asked about the barriers in engaging innovation from Silicon Valley, such as commercial pricing practices and Intellectual Property (IP) rights, Kendall countered that there is a lot of misperceptions about the Government's role in IP rights. "We do not take

people's Intellectual Property and give it away," he stated unequivocally. But, he acknowledged the inherent challenges in ensuring that the Government pays a fair and reasonable price for the items it procures from commercial industry. Often items, such as avionics parts, don't have verifiable market prices, so contracting officers require certified cost data that companies are reluctant to provide. Consequently, the Department is establishing centers of excellence to train staff in commercial pricing practices to accelerate

Laplante reminded everyone that the use of commercial components does not ensure technical superiority. Items available in commercial markets are also available to adversaries.

the procurement of items at fair and reasonable prices without traditional certified cost or pricing data.

Laplante reminded everyone that the use of commercial components does not ensure technical superiority. Items available in commercial markets

are also available to adversaries. Consequently, the Department is working with its industrial base (such as foundries) to ensure critical components are available from trusted sources.

The Old Saying "All Air Force Programs are Actually Software Programs"

...is actually true according to Laplante, as he characterized the importance and challenges in estimating and managing the amount and cost of software that is now endemic in Defense systems. Software is one of the greatest challenges to the Navy, with Stackley indicating that neither the government nor industry have reliable methods to measure software accurately. Shyu said the Army is seeking standards to isolate hardware from software in its efforts to estimate and manage software. Additionally, acquisition processes are not accommodating of agile software development. However, open system architectures are making upgrades easier, which in turn improve capability, but can affect availability appreciably. As such, the Air Force is looking at bringing software into the Depots.



Mergers & Acquisitions Trending Toward Consolidation (Again)

The recent action by Lockheed Martin to acquire Sikorsky Aircraft (a major manufacturer of military and commercial rotary-wing aircraft) provides another data point in the continuing trend, over the past several decades, toward consolidation of the military industrial base into fewer large primes. Current anti-trust regulations seem insufficient to counter this trend, which Kendall believes has national security implications. He intends to use whatever policy and authority he has to manage the industrial base in a manner that ensures competition, but at no point will he intervene as a source selection authority.

Good Marks in Responding to Today's Urgent Operational Needs

Kendall acknowledged that the Department “has gotten quite good at responding to urgent operational needs” brought about by current conflicts. He meets regularly, via VTC, with a Warfighters’ Senior Integration Group to remain abreast of immediate needs, and has found that much of the operational needs revolve around procuring items, which contracting directorates are equipped to manage, versus acquiring systems, which fall under AT&L’s purview.

Key Takeaways

Budget uncertainty is a reality, and although not something Defense leaders and manager can affect, it confirms how critical it is to embrace a multi-dimensional perspective and expect the “known unknowns” that arise from stakeholders levying obligations on programs that extend beyond traditional warfighter technical requirements. While affordability has always been a requirement, the unique constraints imposed on programs from sequestration and CRs (such as limitations on staff workdays) and from reform legislation that might be included in the NDAA (such as penalties from Nunn-McCurdy breaches) present a new set of multi-dimensional challenges that Defense managers need to anticipate proactively and prepare their contingencies accordingly.

The analyses highlighted in the annual report on the Performance of the Defense Acquisition System, and augmented by others, serve as evidence that senior leadership is unlocking the power of data analytics. In highlighting correlations between budget climate and cost growth, AT&L is on the verge of uncovering behavioral trends that were considered, but hadn’t been proven. When armed with insights that tight budgets induce overly optimistic baselines and greater risk taking, leadership can take proactive measures and intervene to establish realistic program baselines that will not put programs at risk for cost growth—as had been the practice.

AT&L is also to be commended for its willingness to challenge conventional habits and thinking. The courage to challenge the trend of continued mergers and acquisitions as a national security issue is an excellent example of a preparedness to deviate from predictable habits. In these times of uncertainty—on so many levels—reliance on conservative responses will not suffice. A disposition for bold action, based on thoughtful consideration of multi-dimensional prospects and informed by advanced data analytics, will be hallmarks for program success.

Booz Allen’s Perspective on the Issues

Mr. Kendall’s perspective, and those of the Service Acquisition Executives at the event, reinforced the views that Booz Allen holds with regard to managing complexity and risk in defense acquisition and logistics. Our experience across the DoD drives us to the belief that program managers can succeed within the current acquisition system by continuing efforts to streamline the existing process, while applying multi-dimensional thinking, skills, and tools to the challenges of modern acquisition and logistics. The three central principles of our Viewpoint leap out as aligning very strongly with Kendall’s message:

1. **Embrace a Multi-Dimensional Perspective.** Build and support a culture that recognizes the inherent complexity of modern system-of-systems acquisition, including the multiplying stakeholder interests,

expanding supplier base, complex logistical chains, and other acquisition challenges.

2. **Challenge Conventional Habits and Thinking.** Use acquisition and logistics rules and regulations to expand, rather than limit, the decision maker's ability to guide programs to success.
3. **Unlock the Power of Data Analytics.** Improve decision making with objective, data-driven analysis across all dimensions.

This final point, from our perspective, cannot be overemphasized. In today's digital world, government leaders need access to more effective ways to access

and explore data, uncover new insights, and make informed decisions in a timely manner. However, achieving this can be difficult for many organizations given the complexities of outdated IT infrastructures.

Booz Allen can help agencies unlock the power of data analytics through the most advanced techniques in data science and cloud technology. We bring deep domain expertise, application insights, and data science experience to help our clients develop and execute a data analytics strategy for all aspects of acquisition and logistics.

About the Author

Ted Sniffin is a Booz Allen Hamilton Executive Vice President and a leader in the firm's defense business. He is a recognized expert in strategy and organization capabilities, including enterprise efficiency and effectiveness, large-scale organizational change, strategic planning, business process reengineering, and change management. He has led organizational and process redesign efforts for Department of Defense acquisition clients, including the Assistant

Secretary of the Army for Acquisition, Logistics, and Technology and the Assistant Secretary of the Air Force/Acquisition. Sniffin has also led organizational transformation and strategy efforts for defense personnel clients, including the Office of the Secretary of Defense (Personnel & Readiness), the Army G-1, and the Air Force A-1, as well as reengineering of DoD's global medical evacuation processes for the US Transportation Command.

Contact Information:

Ted Sniffin

Executive Vice President
sniffin_ted@bah.com
+1-703-559-6300

About Booz Allen

Booz Allen Hamilton has been at the forefront of strategy and technology for more than 100 years. Today, the firm provides management and technology consulting and engineering services to leading Fortune 500 corporations, governments, and not-for-profits across the globe. Booz Allen partners with public and private sector clients to solve their most difficult challenges through a combination of consulting, analytics, mission operations, technology, systems delivery, cybersecurity, engineering, and innovation expertise.

With international headquarters in McLean, Virginia, the firm employs more than 22,500 people globally, and had revenue of \$5.27 billion for the 12 months ended March 31, 2015. To learn more, visit www.boozallen.com. (NYSE: BAH)

To learn more about the firm and to download digital versions of this article and other Booz Allen Hamilton publications, visit www.boozallen.com.