



Dr. Ashton B. Carter Offers Guidance for Better Buying Power

Jaclyn Pitts | Army AL&T Magazine Staff Writer

Dr. Ashton B. Carter, under secretary of defense for acquisition, technology and logistics, addresses the audience as the keynote speaker Nov. 2, 2010, during the 2010 Program Executive Officers'/Systems Command Commanders' Conference. (U.S. Army photo by Erica Kobren, Defense Acquisition University)

As keynote speaker for the 2010 Program Executive Officers'/Systems Command Commanders' Conference, Dr. Ashton B. Carter, under secretary of defense for acquisition, technology and logistics, gave insight into the five major areas in which acquisition professionals can improve efficiency. The topics mirrored Carter's Sept. 14, 2010, memorandum to acquisition professionals, which provided guidance on obtaining greater efficiency and productivity in defense spending. Nearly 500 senior civilian and military officials from throughout the Department of Defense, as

well as executives from across the defense industry, converged Nov. 2–3, 2010, at the Fort Belvoir Officers' Club, Fort Belvoir, Va., to share and discuss the latest ideas, initiatives and best practices for improving DoD's buying power in acquiring and delivering weapon systems and capabilities.

The conference's theme was "Getting it Right the First Time: Achieving Affordable and Executable Programs," which Carter told conference attendees is aligned with Secretary of Defense Robert M. Gates' objective to increase the efficiency and productivity of DoD spending. "Broadly speaking, our challenge is to sustain a

military at war, take care of our troops and their families, and invest in new capabilities — all in an era when defense budgets will not be growing as rapidly as they were in the years following 9/11," Carter stated in a memorandum to conference attendees. "Therefore, it is our responsibility to procure the critical defense goods and services our forces need by doing more without more."

Affordability

Carter first addressed the issue of affordability. He said, "Affordability as a requirement really means that when programs come to me, we're looking at

Affordability

Carter first addressed the issue of affordability. He said, "Affordability as a requirement really means that when programs come to me, we're looking at



Guidance Roadmap

Target Affordability and Control Cost Growth

- Mandate affordability as a requirement
 - At Milestone A set affordability target as a Key Performance Parameter
 - At Milestone B establish engineering trades showing how each key design feature affects the target cost
- 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 & Innovation in Industry

- Reward contractors for successful supply chain and indirect expense management
- Increase the use of 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 to a DoD-wide pilot
- Reinvigorate industry's independent research and development and protect the defense technology base

Promote Real Competition

- Present a competitive strategy at each program milestone
- Remove obstacles to competition
 - Allow reasonable time to bid
 - Require non-certified cost and pricing data on single offers
 - Require open system architectures and set rules for acquisition of technical data rights
- 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
 - Assist users of services to define requirements and prevent creep via requirements templates
 - Assist users of services to conduct market research to support competition and pricing
 - Enhance competition by requiring more frequent re-compete of knowledge-based services
 - Limit the use of time and materials and 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 to 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 DCMA and DCAA processes to ensure work is complementary
- Increase use of Forward Pricing Rate Recommendations (FPRRs) to reduce administrative costs

Sept 14, 2010

Dr. Ashton B. Carter's Sept. 14, 2010, memorandum to acquisition professionals provides guidance on obtaining greater efficiency and productivity in defense spending. Carter is the under secretary of defense for acquisition, technology and logistics. (Image courtesy of the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics)

how the cost varies with (key performance parameter) value, or other critical parameters around the design point, and asking ourselves, 'Are we really willing to pay that extra increment of cost for that extra increment of capability?' It's that simple. It will require a lot of systems engineering on your part."

Carter also discussed the disparity between what he refers to as "will-cost" and "should-cost." He explained that the *Weapon Systems Acquisition Reform Act of 2009* (http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=fs454enr.txt.pdf) required acquisition professionals to budget programs to independent cost estimates.

"However, those cost estimates are what I call 'will-cost' estimates," Carter said. "They describe what the program will cost if we keep doing it the way we're doing it. That is different than 'should-cost.' What should we be paying for this capability? Budgeting a program and managing it to a 'will-cost' estimate is living a self-fulfilling prophecy, and we should aspire to do better than that."

Incentivized Productivity and Innovation

The second major area addressed in Carter's guidance memorandum focuses on incentivizing productivity and innovation in industry through several means, including rewarding contractors

“Budgeting a program and managing it to a ‘will-cost’ estimate is living a self-fulfilling prophecy, and we should aspire to do better than that.”

— Dr. Ashton B. Carter, under secretary of defense for acquisition, technology and logistics

for successful supply chain and indirect expense management, extending the U.S. Navy's Preferred Supplier Program to a DoD-wide pilot, reinvigorating industry's independent research and development, and protecting DoD's technology base. "We should be rewarding what we're looking for, which is productivity growth, and that's what our incentives should be," Carter explained.

Carter also discussed the Superior Supplier Incentive Program, modeled after a Navy program. The two main design criteria for such a program are how suppliers qualify and what they get if they qualify, according to Carter.

Carter asked, "Are we selecting in a fair and reasonable way that is reflective of what we, as the customers, want? Is it fair to our suppliers in terms of what they're doing for us? And are the rewards we're offering proportional to the benefit we're getting? These are the principles that apply to programs already in progress."

Improving Tradecraft in Services Acquisition

According to Carter, improving tradecraft in services acquisition is the biggest area in which greater efficiency and productivity in DoD spending can be obtained. "Two hundred billion dollars, or half of our contract spend, is for services, not goods," he said. "That category has grown more than any other category in the budget in the last 10 years."

Carter explained that in looking at how the different military components spend on services, the way funds are used can vary greatly. "The state of play is that we have a wide variety of practices at work in the acquisition of services," he said. "Even within certain categories, (many) of us are doing it differently, and that suggests that we could probably improve our art a bit."

Reducing Nonproductive Processes

On reducing nonproductive processes and bureaucracy throughout DoD, Carter told the audience, "What we do to ourselves is what we do to you. What we get in the way of management information

"What do we need from you? You know all this. Where something is not clear, where you doubt how to carry it out or where to take it, come to us and we'll talk about it and adjust."

— Dr. Ashton B. Carter, under secretary of defense for acquisition, technology and logistics

and input isn't really useful. We have program reviews whose purpose is to allow you to surface issues you're having and work through the solutions. ... and that's what it's all about — not grading or checking off boxes."

He stressed that DoD leadership is striving to improve the quality and value added of its interactions with senior civilian and military officials across the services.

Carter also addressed unproductive processes and bureaucracies imposed on industry, which he described as "the ways we make those we work with less productive than they could be." Additionally, he mentioned processes imposed by Congress, such as the requirement for 700 reports annually from the Office of the Secretary of Defense.

A Realistic Target

In conclusion, Carter said he believes that the steps detailed in his memorandum are the keys to delivering savings mandated by the secretary of defense.

"What [Gates] is asking is quite reasonable, a few points per year," Carter said. "This is a realistic target. We're very focused on the steps that we can take. It follows upon a decade of budget growth, so it's fair to say that with money as available as it's been, we've all been able to reach for more money when we've run into a managerial problem. Therefore, it is reasonable to assume that we have built in some fat that we can make a little leaner."

He emphasized that now is the "best climate" in which to strive to achieve such savings, as both President Barack Obama and the secretary of defense "have been seized" with what DoD does. He noted that, "Congress voted unanimously in both houses for an acquisition reform bill that is uneven but generally quite good and certainly reflective of the intent and support for what we're trying to accomplish. For those reasons, I do believe that these steps can deliver the savings.

"Sitting still, waiting for it to happen, is the way to broken programs, canceled programs, budget turbulence, churn, uncertainty and unpredictability for industry ... erosion of taxpayers' confidence in us and in the quality with which we're spending their money and, above all, loss of warfighter capability," Carter said.

"What do we need from you? You know all this. Where something is not clear, where you doubt how to carry it out or where to take it, come to us and we'll talk about it and adjust. I need you to communicate it downward. Our colleagues in industry get it entirely; they know that we're going into a different environment. The fear is unevenness of implementation. We need to make sure we have consistency of implementation," he said.

"Lead by example, as you see us doing. Your key programs, make them examples of what we're looking for. Ensure that consistency. That is what we ask of you as this time. You're the best of our best." 

(Editor's note: This article was originally printed in the January–March 2011 issue of Army AL&T Magazine.)