Recently we have expressed some doubts about the ultimate ability of the DoD's acquisition reform efforts – dubbed "Better Buying Power" – to change the defense acquisition marketplace in a fundamental and long-lasting manner. Rather than a gradual evolution towards more efficient practices, we think a radical revolution is called for. But that's just an opinion. What might be more helpful is a more objective analysis of how well BBP has accomplished its stated goals in the four years since its inception. GAO recently **issued** such a report card.

But before we get into the GAO report card, let's first recall how we got here.

It all started in May, 2010, with then Secretary of Defense Robert Gates calling for reforms to DoD in order to increase affordability. He called for trimming $101 billion from the Pentagon's budget, based on those reforms. Notably, SECDEF Gates did not focus on acquisition reforms, nor did he focus on trimming contractor costs. Instead, he called out the Department of Defense itself.

He stated, "The changes we have made in the procurement arena represent an important start. But only a start. More is needed – much more. 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."

SECDEF Gates called for reforms to the Pentagon's budget practices. He said "no real progress toward savings will be possible without reforming our budgeting practices and assumptions. Too often budgets are divied up and doled out every year as a straight line projection of what was spent the year before. Very rarely is the activity funded in these areas ever fundamentally re-examined – either in terms of quantity, type, or whether it should be conducted at all. That needs to change."

SECDEF Gates called for significant reductions to Pentagon overhead and middle management. He said "Another category ripe for scrutiny should be overhead – all the activity and bureaucracy that supports the military mission. According to an estimate by the Defense Business Board, overhead, broadly defined, makes up roughly 40 percent of the Department's budget. … Almost a decade ago, Secretary Rumsfeld lamented that there were 17 levels of staff between him and a line officer. The Defense Business Board recently estimated that in some cases the gap between me and an action officer may be as high as 30 layers."

SECDEF Gates called for changes to how the DoD identifies requirements. He said "this Department's approach to requirements must change. Before making claims of requirements not being met or alleged 'gaps' – in ships, tactical fighters, personnel, or anything else – we need to evaluate the criteria upon which requirements are based and the wider real world context. For example, should we really be up in arms over a temporary projected shortfall of about 100 Navy and Marine strike fighters relative to the number of carrier wings, when America's military possesses more than 3,200 tactical combat aircraft of all kinds? Does the number of warships we have and are building really put America at risk when the U.S. battle fleet is larger than the next 13 navies combined, 11 of which belong to allies and partners? Is it a dire threat that by 2020 the United States will have only 20 times more advanced stealth fighters than China?"

Finally, SECDEF Gates issued this order to the team that reported to him: "I am directing the military services, the joint staff, the major functional and regional commands, and the civilian side of the Pentagon to take a hard, unsparing look at how they operate – in substance and style alike. The goal is to cut our overhead costs and to transfer those savings to force structure and modernization within the programmed budget. In other words, to convert sufficient 'tail' to 'tooth' to provide the equivalent of the roughly two to three percent real growth – resources needed to sustain our combat power at a time of war and make investments to prepare for an uncertain future. Simply taking a few percent off the top of everything on a one-time basis will not do. These savings must stem from root-and-branch changes that can be sustained and added to over time."

He memorialized his direction in an August 2010 memo (which you can find in the Knowledge portion of our website). That memo contained roughly 20 individual initiatives, ranging from

"Freeze the number of senior executive positions in the defense intelligence organizations" to "Freeze the overall number of DoD-required oversight reports" to "Reduce by 10 percent per year … funding for support service contractors."

So naturally, the first order of business was to focus on the contractors.

Then-Deputy Defense Secretary William Lynn told industry leaders that he expected two-thirds of the cuts ($66 billion) to come from support programs. Meanwhile, then-USD (AT&L) Dr. Ash Carter (now SECDEF Ash Carter) met with industry leaders "to discuss policy, process and workforce changes that will help the Defense Department buy things more efficiently." Dr. Carter released the first "Better Buying Power" memo during that same timeframe.

It's worth remembering the full title of Dr. Carter's first BBP memo – "Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending." The first BBP (BBP 1.0) was *entirely focused on acquisition*. It included the following initiatives:

- Phase-out award-fee contracts and favor fixed-price or cost-type incentive contracts …

- Phase-out Time and Material and sole-source ID/IQ contracts wherever possible.

- Identify and eliminate non-value-added overhead and G&A charged to contracts.

- Limit B&P allowable costs in sole source contracts and encourage effective use of IRAD.

- Adopt 'should-cost' and 'will-cost' management to inform managing of programs to cost objectives.

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Improve consistency and quality of government audits, and focus them on value-added content.

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Mandate affordability as a [contract award] requirement by having cost considerations shape requirements and design.

But it quickly became clear that the Gates-directed initiatives were actually two initiatives. One was focused on the Pentagon and the other was focused on the Pentagon's contractors. Over time, the internal initiative seems to have faded away, but the contractor-focused initiative is still around—though it has gone through several reincarnations since 2010.

The first BBP incarnation focused solely on contractors was described in a guidance "roadmap" issued by Dr. Carter in September, 2010. It included five lines of attack intended to reduce Defense acquisition costs. The five vectors were—

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Target Affordability and Control Cost Growth

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Incentivize Productivity & Innovation in Industry

-

Promote Real Competition

-

Improve Tradecraft in Services Acquisition

-

Reduce Non-Productive Processes and Bureaucracy

Dr. Carter issued another 17 page BBP memo entitled “Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending” that accompanied his roadmap. It contained 23 principal actions designed to accomplish his goals of increasing both efficiency and productivity.

About a year after all this went down, Mr. Shay Assad departed his role as Director, Defense Procurement and Acquisition Policy (DPAP) for a new position called Director, Defense Pricing. As was reported at the time by Federal Computer Week—

David Berteau, director of the Center for Strategic and International Studies' Defense-Industrial Initiatives Group, said Assad's new position will help reverse 15 years or more of a decline in managing defense contracts and controlling prices. Such a position is long overdue and will have lasting value for DOD. ‘It is central to the success of Carter's initiatives,’ he said.‘ But more importantly, it will have benefits across all $360 billion of DOD contract dollars.’

DefenseNews reported—

The creation of the new position is part of the Pentagon's quest to drive down the cost of weapons at a time when defense budgets are constricting. In his new role, Assad will help program managers hit these should-cost targets, which will be set at levels less than official budget estimates.

In addition, he will spend more time improving the contracting and pricing work forces in ‘improving their skills on what it is we pay on the goods and services we buy.’

Assad's first focus, according to all reports, was on increasing the affordability of the F-35 Lightning II Joint Strike Fighter, the most expensive defense acquisition in history.

Flash-forward another year or so, to November, 2012. That was when BBP 2.0 was released by the new USD (AT&L), Mr. Frank Kendall. BBP 2.0 encompassed "36 initiatives that are organized into seven focus areas." The seven focus areas included—

- Achieve affordable programs
- Control costs throughout the product lifecycle
- Incentivize Productivity and Innovation in industry and government
- Eliminate unproductive processes and bureaucracy
- Promote effective competition
- Improve tradecraft in acquisition of services
- Improve the professionalism of the total acquisition workforce

Note that the primary focus was, once again, on acquisition. Notably, BBP 2.0 added a focus on the acquisition workforce itself. In addition, USD (AT&L) Kendall noted a focus on helping DCAA reduce its audit backlogs.

About six months later, USD (A&TL) Kendall issued additional implementing guidance, which we quickly dubbed BBP 2.1. The guidance focused on implementing “should-cost” and on identifying Low-Value Added (LVA) activities. It also noted that contractor profit could be used to motivate contractor performance. It said “Traditionally, the Government’s objective position for contract profitability has been a function of perceived risk and the anticipated value to be achieved by successful contract performance. DoD profit policy and our acquisition strategies should provide effective incentives to industry to deliver cost-effective solutions in which realized profitability is aligned and consistent with contract outcomes.”

The guidance also announced that “have worked with DCAA and we agreed upon goals for the Agency to reduce the current incurred cost backlog by the end of FY2014 and achieve a steady state on all incurred cost audits (defined as 2 years’ worth of incurred cost inventory) by the end of FY2016.”

The guidance also announced the creation of the “Superior Supplier Incentive Program,” in which top-performing suppliers would “receive more favorable contract terms and conditions” in their contracts. DCAA also agreed to implement low-risk sampling plans for those top-performers.

Now, as SECDEF Dr. Ash Carter and his team are about to unveil BBP 3.0, the Government Accountability Office has issued a report card on the results to date.

In the words of the GAO –

The size and cost of the portfolio is currently the lowest in a decade. The decrease in current portfolio cost is due primarily to significant quantity decreases on two programs—most other programs actually experienced a cost increase over the past year. The average time to deliver initial capability to the warfighter also increased by over 1 month. Forty-one programs in the portfolio lost buying power during the past year resulting in $5.3 billion in additional costs, a contrast to the buying power gains seen in GAO's prior assessments. The F-35, the costliest program in the portfolio, epitomizes this loss in buying power as its costs have risen over the past year without any change in quantity, meaning it is paying more for the same amount of capability

GAO reviewed 78 DoD programs. 41 of the 78 lost buying power and four had no changes to buying power. (Buying power being defined as the cost for the same quantity. Programs that paid more for the same quantity lost buying power, while programs that paid less for the same quantity gained buying power.) Remember, we linked to the GAO report in the first paragraph of this article.)

Let us add to the GAO's report.

Shay Assad's focus on the F-35 program over the past two years has not resulted in an increased buying power, though we admit his focus may have improved results from what they otherwise would have been.

DCAA backlog has improved, though the result was obtained by resorting to bureaucratic tricks such as declaring contractor proposals inadequate and then closing out assignments.

The Superior Supplier Incentive program identified the top-performing contractors – who were also the largest contractors – but granted them no preferential treatment. DCAA did not implement low-risk sampling audit plans as the result of being so designated.

Innovation continues to lag and everybody is very, very **concerned** .

All those back-office Pentagon positions that SECDEF Gates froze? Yeah, the Pentagon added 15% new positions.

In a nutshell, BBP has proven to be a bust. As we've reported more than once, adding more processes to fix processes is not really ever going to work. It's a bureaucrat's approach.

We don't need more bureaucrats.

We need demolition specialists.