

“Affordability” and “Efficiency” Become New DOD Mantras

Written by Administrator

Tuesday, 03 August 2010 00:00

We’ve been following the Pentagon’s recent [obsession](#) with moving “tail to tooth” by reducing its overhead expenditures—and that of its contractors—by \$100 billion in order to prepare for the new fiscal realities. In fact, we’ve been rather [critical](#) of the effort so far, calling it “exactly the opposite” of what Secretary Gates called for, in that the early activity seemed to consist of adding bureaucracy rather than cutting it. We may have been a bit overhasty in our initial assessment.

In our defense, very few of the news stories on these topics are getting it right either. Is this all about affordability or efficiency? Is it about the Pentagon, or its contractors? It turns out it’s about both.

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What we are seeing now is a bifurcation: it looks like *two separate initiatives* are being pursued by the DOD. One effort is focused on delivering Secretary Gates' call for “efficiency” within the Defense Department, while the other effort is focused on implementing the call for contractor “affordability” (as championed by Deputy SECDEF Lynn and Undersecretary (AT&L) Dr. Ash Carter).

According to [this story](#) at DefenseNews.com, on July 29, 2010, Defense Secretary Gates planned to meet “with more than a dozen U.S. defense industry executives to discuss his efficiencies effort. Gates will be joined ... by Deputy Defense Secretary William Lynn and Pentagon acquisition executive Ashton Carter ... to hear their suggestions, thoughts and concerns about the Pentagon's efforts to find efficiencies and get a better deal when it buys weapons, services and other items from industry.”

Let's review the status each of the efforts.

Affordability

The July 26, 2010 edition of Aviation Week & Space Technology magazine carried a story about Dr. Carter’s meeting with various industry executives at the Farnborough air show, in order “to emphasize the need to improve affordability and productivity in weapon system development and procurement” and “to solicit input” into his initiative. But the executives (who insisted on anonymity) were somewhat less than supportive. AW&ST reported that “one executive says that because companies already answer to shareholders, they are often leaner than the government.” (We agree, and we pointed that out in our prior articles on this topic.)

Regardless, Dr. Carter intends to move forward to find savings in the defense industrial base. He wrote an article for FederalTimes.com [here](#), in which he stated—

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To sustain our force structure, modernize and develop future combat capabilities, we must make every taxpayer dollar count. This initiative is a first step toward restoring affordability to defense spending.

Those who hesitate to embrace the need for change should consider the alternative: broken and canceled programs, unpredictability and uncertainty for industry, erosion of taxpayer confidence and, above all, lost capability for our war fighters.

The savings we seek will not be found overnight. It has taken years for excessive costs to creep into our business practices, and it will take years to root them out. But it is crucial that we begin this process now. ...the earlier we embark on this initiative, the easier it will be to succeed.

Efficiency

The Wall Street Journal blog [reported](#) that the Defense Business Board prepared a series of recommendations for SECDEF Gates’ consideration. Although the recommendations are not yet finalized, the blog stated—

In a presentation issued today at the Pentagon, the Defense Business Board, an independent federal advisory body that includes business executives and corporate strategy types, offered a few proposals for getting smarter about spending. The board’s observations would be familiar to any corporate efficiency expert: The Department of Defense often suffers from bloated staffs, redundant layers of management and inadequate spending controls. ...

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This report offers a number of concrete measures, including a hiring freeze within the Office of the Secretary of Defense, and an effort to streamline staff within the Pentagon's geographic commands. It also encourages the department to get a grip on contractor headcounts, and find out how many contractors actually work for the DoD. And it recommends elimination of Joint Forces Command, a contractor-heavy headquarters organization based in Norfolk, Va.

Similarly, DefenseNews.com reported that the DBB would recommend that the Pentagon's civilian workforce should be cut by 111,000 heads. The article stated—

The study group will advise Gates to either shrink the DoD civilian workforce to 2003 levels or by 15 percent, whichever is greater. The greater reduction would be a 15 percent cut, which would amount to 111,508 personnel, based on the 743,388 employees DoD had in March, according to the Office of Personnel Management's online database, Fedscope. DoD had 654,287 civilian employees in September 2003.

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(We have sourced a copy of the actual Defense Business Board’s “pre-decisional” presentation. Members will be able to find it in our knowledge resources section very soon. *UPDATE:* The DBB presentation is available under Knowledge Resources as of 08/03/10.)

Notes from the July 27, 2010 meeting between Pentagon officials and industry executives revealed the following points:

- This initiative is “not a budget exercise.” The DOD is “not looking to take money from contractors or from existing programs.
- The DOD is not looking to “enforce improvements in existing programs.” Instead, reforms will be imposed on “all future programs.”
- Dr. Carter will be issuing a memo in September that will kick-off sustained follow-up effort. The memo will not be the end of the process; “it’s just the beginning.”
- “Mr. Lambert stressed a few times about the unintended consequences of our actions and implement solutions that work without falling into the trap in unintentionally making things worse.”

Notes from a participant, distributed by Lt. General Larry Farrell (USAF, Retired), to members of the National Defense Industrial Association (NDIA), included the following points:

- Someone made a really good suggestion about cutting the requirements for proposals. I recently saw a proposal that cost a company \$4 million and took two pallets to deliver. I can't imagine that all of that paper was really necessary to make an intelligent procurement decision.

By limiting proposals to things that really contribute to lower risk and greater value the B&P costs will be reduced and there will be more money available for competing more, lowering G&A or doing IR&D, not to mention hiring the people who must read and document their assessments of all of that stuff.

- There have been many discussions about reducing cycle times for decades. Doing this not only saves money, but produces more timely results, and keeps pace with technology.

We have an enemy who improvises - this is not the cold war.

The 'Lean Aerospace Initiative' was an attempt to create metrics that would lower cycle times.

Its findings should be re-examined, updated, and extended.

Time is money, but it is also lost capability.

While the foregoing activity was happening, another key stakeholder was warning that cutting funding for weapon programs would be a mistake. This [New York Times article](#) reported that “a blue-ribbon board” warned that efforts to cut Pentagon waste “would not free enough money to modernize aging ships and planes and close a ‘growing gap’ between the size of the military and its missions.” According to the article—

Its [155-page report](#) expressed mild criticism of the Pentagon’s planning process. And it warned that ‘a train wreck’ was coming unless the Pentagon found more money to modernize the Air Force and Navy and gained control of skyrocketing health and benefits costs.

Conclusion

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The more we hear about these initiatives, the more we hope they will succeed. The Pentagon's bloated bureaucracy needs to be pruned, and there's absolutely nothing wrong with rewarding contractors that deliver their programs on-time and on-budget—while penalizing those that do not. Nonetheless, we maintain a detached air of pessimism, informed by decades of watching similar efforts that went nowhere.