

Lockheed Martin Links Government Requirements to Overhead Costs

Written by Nick Sanders

Wednesday, 06 June 2012 00:00

Our thanks to “Cadillac Cowboy” who brought [this article](#) to our attention. As he noted, “This ties in with some of your recent blog posts.” Indeed it does.

The article was straight-forward. It reported that Lockheed Martin CEO Bob Stevens told an investor conference that the company’s ability to cut its overhead costs was hindered by increased government demands for data.

This is a phenomenon that we’ve pondered for a while, and even mentioned a time or two in these blog articles. We’ve discussed some of the following points—

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Creation by DCMA and DOD’s new Pricing Directorate of databases intended to give DOD pricing analysts and contracting officers the ability to negotiate forward pricing rate agreements without reliance on a DCAA audit report. You know the data going into those new databases have to come from somewhere, right? The databases don’t just populate themselves. Since the government (by and large) doesn’t have the data, guess who they ask to provide it?

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Recent DOD emphasis on “should-cost” analysis, where government analysts assess how their contractors can reduce costs, based on review of lots of detailed contractor cost information. Where do you think all that cost information comes from? Guess who they ask to provide it?

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Recent DOD and DCAA emphasis on strict adherence to the proposal format of FAR Table 15-2, even when common sense would tell a reasonable negotiator that after two decades or so of production, more cost information was not going to be significantly different from what had transpired. Making the contractor submit a full-up TINA-compliant cost proposal in such circumstances struck us as being essentially “make work” that added little value but added a lot of costs. And then—to add insult to injury—the government [found](#) the contractor’s proposal to be “inadequate” and stalled negotiations as a result, leading to workforce impacts.

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DCAA's impossible backlog and how delays in audit performance lead to contractors having to retain documents to support those audits. Guess who pays for storage costs?

Anyway, the point is that CEO Stevens is saying what's been on our mind for some time. And he's saying it in public. Here is how the article quoted Mr. Stevens—

Lockheed Chief Executive Bob Stevens said his company was working hard to drive down overhead, but the government's 'should cost' initiative meant the company needed more people to generate thousands of pages of additional paperwork.

'The more the government asks us to do, the more pressure that puts on having the overheads ... What won't work in my mind is an ever increasing set of demands by the government for more and more and more information and responsiveness, and an increasing expectation that the facilities that are available to meet those increasing demands ought to be reduced and reduced and reduced.' ...

Stevens said Lockheed took the Pentagon's concerns about overhead costs very seriously and ... it ... remained focused 'on every expense account, every capital request, every individual ...job that we have in the company, how to reduce and how to streamline.'

But he said Lockheed was telling U.S. defense officials to be more focused in their requests for additional data.

'It falls a little bit into the domain of help us help you. If you want us to continue to focus on overhead reduction, then maybe we ought to look at how we work together with one another and exactly what is needed and be more specific and more tailored and more focused,' he said. ...

Stevens said the Pentagon's focus on what weapons programs 'should cost' - as opposed to estimates focused on what they 'would cost' - had resulted in increasing requests for more

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certified cost and pricing data.

Lockheed submitted 6,000 pages of data with its initial F-35 proposal, but had been required to generate an additional 7,000 pages of data for the negotiations in recent months, he said.

Part of the “Better Buying Power” initiative is to assist contractors in reducing their indirect costs through cutting “non-productive processes and bureaucracy.” Dr. Carter wrote—

Industry has its own internal unproductive processes which add to project costs, but these are in some part a reflection of the requirements which the government imposes. A great number of the inputs I received from industry were directed at what was viewed as excessive overhead expenses based solely on non-value-added mandates and reporting requirements which may have been relevant at some point in time, but have little relevance in the world in which we now find ourselves. *In order to identify and reduce these costly requirements, I am directing the Director of Industrial Policy, with support from DPAP, to more fully survey our industrial base to identify, prioritize, and recommend a path forward to unwind duplicative and overly rigorous requirements that add to costs, but do not add to quality of product or timeliness of delivery. As we remove these requirements, I will expect a decline in the overhead charged to the Department by our industrial base that reflects these reduced costs.*

(Emphasis in original.)

President Obama has [ordered](#) reviews that aim to weed-out “outmoded, ineffective, insufficient, or excessively burdensome” regulations so as to reduce burdens on those being regulated.

According to Lockheed’s CEO, none of these top-down directions are working. Instead, he sees a growing and insatiable demand for data—while at the same time contractors are being told to cut costs associated with the functions that provide the government with the data they demand. He sees a fundamental contradiction—and we see it as well.

We as an industry have known for decades that compliance with regulatory requirements carries with it a cost, and that DOD’s insistence on certain requirements means that they (and the taxpayers) pay more for goods and services than they otherwise would, had their requirements not been imposed. Now for the first time in memory, we are experiencing increased regulatory burdens and data demands while that price premium is being attacked. It’s not logical, but it’s real nonetheless.

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Illegitimi non carborundum