

DOD Can Save 20 Percent Simply by Being a Better Customer

Written by Nick Sanders

Wednesday, 18 July 2012 00:56

Those of us who've been around the block once or twice remember the 1994 [Coopers & Lybrand study](#) (entitled "The DOD Regulatory Cost Premium: A Quantitative Assessment"). The C&L study identified 10 regulatory cost drivers that, together, "increase[d] the price DOD pays for goods and services by 18 percent." That study was one of the drivers that pushed Clinton-era "acquisition reform" and led to ground-breaking pieces of legislation such as the Federal Acquisition Streamlining Act (FASA).

There is some irony in the fact that the Obama administration has spent significant efforts in moving away from the flexibilities granted by FASA and other Clinton-era reforms. In other words, our view is that the Obama administration's "acquisition reform" efforts consist largely of *undoing* the Clinton administration's acquisition reform efforts, by reducing flexibility and facilitating a bureaucratic oversight regime that is seemingly designed to inhibit efficient acquisition of goods and services. The back-and-forth "reform" efforts of the two Democratic Presidents seem to embody the swings of the "pendulum" that everybody says describes the regulatory burdens of the defense acquisition environment.

Thus, we felt a distinct frisson of déjà vu when we saw [a recent article](#) in Federal Computer Week, telling readers that "trust may be the key to cost savings" for the Defense Department. It was like the C&L study had been reborn 18 years later. Perhaps some lessons need to be relearned every generation.

What lessons? Well, it's simple, really. The DOD can save money by being a better customer, by being less adversarial and more trusting. The Pentagon's distrust of its suppliers is not only inefficient, but it's expensive as well.

The FCW article asserted that—

DOD currently spends \$400 billion each year acquiring products and services from its contractors. About \$100 billion of the money is spent on administrative costs, according to the study, based on interviews with 80 defense contractor executives.

By cutting what the report's authors consider to be unneeded bureaucracy, defense officials could reduce the department's costs by 20 percent. That could save roughly \$20 billion each year, according to the report.

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What's driving the inefficient, expensive Pentagon buying practices? The FCW story stated—

... the adversarial relationships between buyers and suppliers have introduced costs in bidding and negotiations in contracts and slowed down the process of coming to acceptable terms and agreements. Think: standoff.

'What's more, high turnover in the core buying or supplying team can fuel dissent in relationships that are already on shaky ground, or reboot solid relationships and turn them adversarial,' the researchers wrote.

In addition, vague contract requirements raise costs. Defense officials and contractors spend time ironing out differences in a changing interpretation of the requirements that could have been spelled out clearly sooner.

But the main villain is the Defense contractor oversight regime, which generates too much non-value-added documentation at the expense of efficient contractor practices. The FCW article stated—

'The main villains are the development, collection, and generation of unneeded reports, documenting, and maintaining compliance processes, as well as educating and training staff on compliance processes,' the researchers determined, according to the report.

'From the contractors' perspective, the Department of Defense requires too many reports, and it micromanages how contractors do their jobs,' Ketchen said.

FCW linked to the report in question, which seemed to be more of [an article](#) from the May 2012 edition of Contract Management magazine. It had more to say on the topics we summarized above. We want to restate, clearly, the authors' findings regarding the "adversarial" relationships between DOD and its suppliers. They wrote—

The nature of supply relationships can introduce unnecessary costs into the contract management process. Adversarial relationships raise costs related to bidding and negotiations in contracts (think standoff) and slow down the process of coming to acceptable terms and conditions.

As we stated at the beginning of this blog article, there's nothing really new here. This is 1995 all over again. At that time, Dr. Gansler wrote about reducing non-value-added oversight activities and treating defense suppliers like trusted business partners, instead of like adversaries. The thing is, in this era of budget pressures, spending cuts, and possible sequestration, it's important to remember that the DOD drives up costs in the name of "compliance" and "oversight". Lockheed Martin CEO Stevens [noted](#) his company's ability to reduce overhead costs was hindered by DOD data requirements. That's a statement borne out by the evidence, and is consistent with the findings of the article reported on by FCW.

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Many compliance requirements are driven by statute/public law. Others are driven by regulation. But many others are driven by bureaucrats, who are more focused on complying with GAGAS and avoiding CIGIE “gigs” than they are on truly protecting the interests of taxpayers.

This taxpayer wants some moderation, some balance, in the Pentagon’s approach to contractor oversight.