

## Conclusions from the Annual Report on the Performance of the Defense Acquisition System

Written by Nick Sanders

Wednesday, 02 July 2014 08:09

---



The Hon. Frank Kendall (Under Secretary of Defense for Acquisition, Technology, and Logistics) recently issued the second annual Report on the Performance of the Defense Acquisition System, focusing on data for Government Fiscal Years 1984 through 2013. Here's [your link](#).

The 126 page-long report is simply chock-full of data. Graphs and regression analyses and charts and lots and lots of information. But we want to ignore the data (which you are perfectly welcome to read for yourself) and focus on the conclusions that we noted as we skimmed through the report.

The percentage of obligated dollars awarded through competition has actually *decreased* since 2010. This is a counter-intuitive result, given the emphasis placed on competitive awards via Mr. Assad's direction as well as the Better Buying Power initiative. The high-water mark was achieved in GFY 2008 and it's fallen ever since. In 2008 about 64% of all obligations were awarded via competition; in 2010 that value was 62.5% and in 2013 the value was 57%, which was the lowest percentage on the chart. The Service with the lowest percentage of competitively awarded obligations was the Air Force, at 41% (which was actually higher than its goal of 38%), but the Navy/Marine Corps were right there at 41% as well (which was lower than their combined goal of 47%).

Acquisition of vehicles had the lowest rate of competition (16%) and weapons/ammo were not

## Conclusions from the Annual Report on the Performance of the Defense Acquisition System

Written by Nick Sanders

Wednesday, 02 July 2014 08:09

---

much better (22%). Everything else was higher, much higher.

-

Contractor profits/fees did *not* correlate with performance. That is to say, final contract margin/markup “was not predicted by cost, price, or schedule performance.”

-

There was no correlation between cost/schedule performance and contract type. That is to say, whether the contract was Firm, Fixed-Price or Cost-Reimbursable did not control how well the contractor performed. This is a significant finding that we will discuss below.

-

Fixed-price contracts exhibit lower cost growth because they are used primarily in lower-risk situations—not because they inherently lead to lower cost growth.

-

Fixed-price contracts are only fixed if the contractual work content and deliverables are fixed; they can be (and often are) modified to handle realized risks, leading to cost growth.

-

When cost control is predetermined and formulaically incentivized in the contract, vendors respond. The key is predictable incentives, not fixed pricing.

-

Competition leads to better contract outcomes. That is to say, cost and price growth are statistically lower on competed contracts.

The most interesting finding in the report was the commentary on contract type. We have discussed [contract type](#) before. We were pleased to see that our assertions were confirmed by the report—*i.e.*, that a FFP contract placed before

## Conclusions from the Annual Report on the Performance of the Defense Acquisition System

Written by Nick Sanders

Wednesday, 02 July 2014 08:09

---

requirements are fixed is no better than placing a cost-type contract, at least in terms of cost or schedule control. It's a notion we wish would become more popular.

It was also interesting to see that competition—long the hallmark of public contract policy—was confirmed as leading to better acquisition outcomes. The report doesn't say why that would be the case, but we assume (without evidentiary support) that the efforts involved in responding to a well-written RFP and it going through the detailed planning associated with preparing a good cost, technical and/or management proposal establish a solid foundation for program execution, once the contract is awarded.

At the end of the day, what strikes us is the rigor of the analyses. Apparently after decades of collection, there is sufficient contractual data for the statisticians to dig into, and so we are finally seeing some "common wisdom" myths being busted while others are confirmed. We don't pretend to know who will use the information, or if the conclusions will actually affect public policy, but knowledge is generally held to be a good thing. And so this report would seem to be a good thing as well.