U.S. Army Contracting Command

Contracting: Implementing Dr. Ashton Carter's Better Buying Power Initiatives

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BACKGROUND

- Dr. Ashton Carter, USD (AT&L) issued the Better Buying Power Memorandum on 14 Sep 2010
- Five Major Areas:
  - Target Affordability and Control Cost Growth
  - Incentivize Productivity and Innovation in Industry
  - Promote Real Competition
  - Improve Tradecraft in Services Acquisition
  - Reduce Non-Productive Processes and Bureaucracy
- Mr. Frank Kendall, previously the Principal Deputy USD (AT&L), is now the USD (AT&L)
  - He has reaffirmed the commitment to the BPP initiatives
  - "One thing we have tried hard to communicate is that our guidance is just that – guidance."
  - "The implementation of the BBP will not be without its challenges, and one of the biggest challenges is communicating our intent effectively so that the workforce understands how to react to the guidance."

USD(AT&L) Objectives

- Deliver the warfighting capability we need for the dollars we have
- Get better buying power for warfighter and taxpayer
- Restore affordability to defense goods and services
- Improve defense industry productivity
- Remove government impediments to leanness
- Avoid program turbulence
- Maintain a vibrant and financially healthy defense industry

Obtain 2-3% net annual growth in warfighting capabilities without commensurate budget increase by identifying and eliminating unproductive or low-value-added overhead and transfer savings to warfighting capabilities. Do more without more.

What the Initiatives are NOT!

- The objective of BBP is NOT to reduce contractor profits to make programs more affordable.
- FPIF contracts are NOT the only acceptable contracting approach.
- A new affordability Key Performance Parameter (KPP) will NOT be mandated on all programs, but affordability constraints will be imposed by CAEs and USD (AT&L).

Results: Guidance Roadmap

Target Affordability and Control Cost Growth

- Mandate affordability as a requirement
  - At MS A (aka Technology Development Decision) set affordability target as a Key Performance Parameter
  - At MS B (aka Product Development Decision) establish engineering trades showing how each key design feature affects the target cost
- Drive productivity growth through Will Cost/Should Cost management
- Eliminate redundancy within warfighter portfolios
- Make production rates economical and hold them stable
- Set shorter program timelines and manage to them

Incentivize Productivity & Innovation in Industry

- Reward contractors for successful supply chain and indirect expense management
- Increase the use of FPIF contract type where appropriate using a 50/50 share line and 120 percent ceiling as a point of departure
- Adjust progress payments to incentivize performance
- Extend the Navy's preferred supplier program to a DoD-wide pilot
- Reinvigorate industry's independent research and development and protect the defense technology base

Promote Real Competition

- Present competitive strategy at each program milestone
- Remove obstacles to competition
  - Allow reasonable time to bid
  - Require non-certified cost and pricing data on single offers
  - Require open system architectures and set rules for acquisition of technical data rights
- Increase dynamic small business role in defense marketplace competition

Blue = PM	Red = Contracting
Purple = Joint PM/Contracting	Green = OSD
Orange = DASA(Services (and requiring activity)	

Improve Tradecraft in Acquisition of Services

- Create a senior manager for acquisition of services in each component, following the Air Force's example
- Adopt uniform taxonomy for different types of services
- Address causes of poor tradecraft in services acquisition
  - Assist users of services to define requirements and prevent creep via requirements templates
  - Assist users of services to conduct market research to support competition and pricing
  - Enhance competition by requiring more frequent re-compete of knowledge-based services
  - Limit the use of time and materials and award fee contracts for services
  - Require that services contracts exceeding $1B contain cost efficiency objectives
- Increase small business participation in providing services

Reduce Non-Productive Processes and Bureaucracy

- Reduce the number of OSD-level reviews to that necessary to support major investment decisions or to investigate and respond to significant program execution issues
- Eliminate low-value-added statutory processes
- Reduce by half the volume and cost of internal and congressional reports
- Reduce non-value-added overhead imposed on industry
- Align DCMA and DCAA processes to ensure work is complementary
- Increase use of Forward Pricing Rate Recommendations (FPRRs) to reduce administrative costs

Restoring Affordability & Productivity
Performance Assessment and Root Cause Analysis (PARCA)

1. **Affordability/Cost Reduction**
   - Leveraging
   - Should cost vs. Will cost
   - Affordability as Requirement
   - Stable Production Rate
   - Portfolio Reviews

2. **Contract Terms**
   - Type of contract
   - Cash flow
   - Non-value added
   - Improved audits

3. **Incentives**
   - Policy
   - Small business
   - Rewarding excellence
   - Protect tech base

4. **Measure Productivity Growth**
   - Metrics
   - Develop out-year wedge (2-3%)
   - CAPE (Industry Savings Assessment)

5. **Services Tradecraft**
   - Management of services

The Army alone has canceled 22 major weapons programs since 1995, at an estimated cost of $32 billion for equipment that was never built or fielded.

Leadership Direction and Thoughts

- Adopt Will and Should Cost management
- Managers should be driving productivity into their program - need to scrutinize every element of program cost
- Continue to use Will Cost estimate to support budgeting and programming
    - Reasonable extrapolations from history
    - Represents business-as-usual management
- To interrupt cycle of self-fulfilling prophecy to Will Cost estimate
- Applies to ACAT I, II, and III programs
- Should Cost Initiatives based on TOTAL PROGRAM not just prime contract

Given the current pressures on the DoD budget, it should be clear that programs that do not perform or are not affordable are at risk of being cancelled or curtailed.

Should-Cost Definition

"Program-Level" Should Cost Estimate - not just the immediate contract!

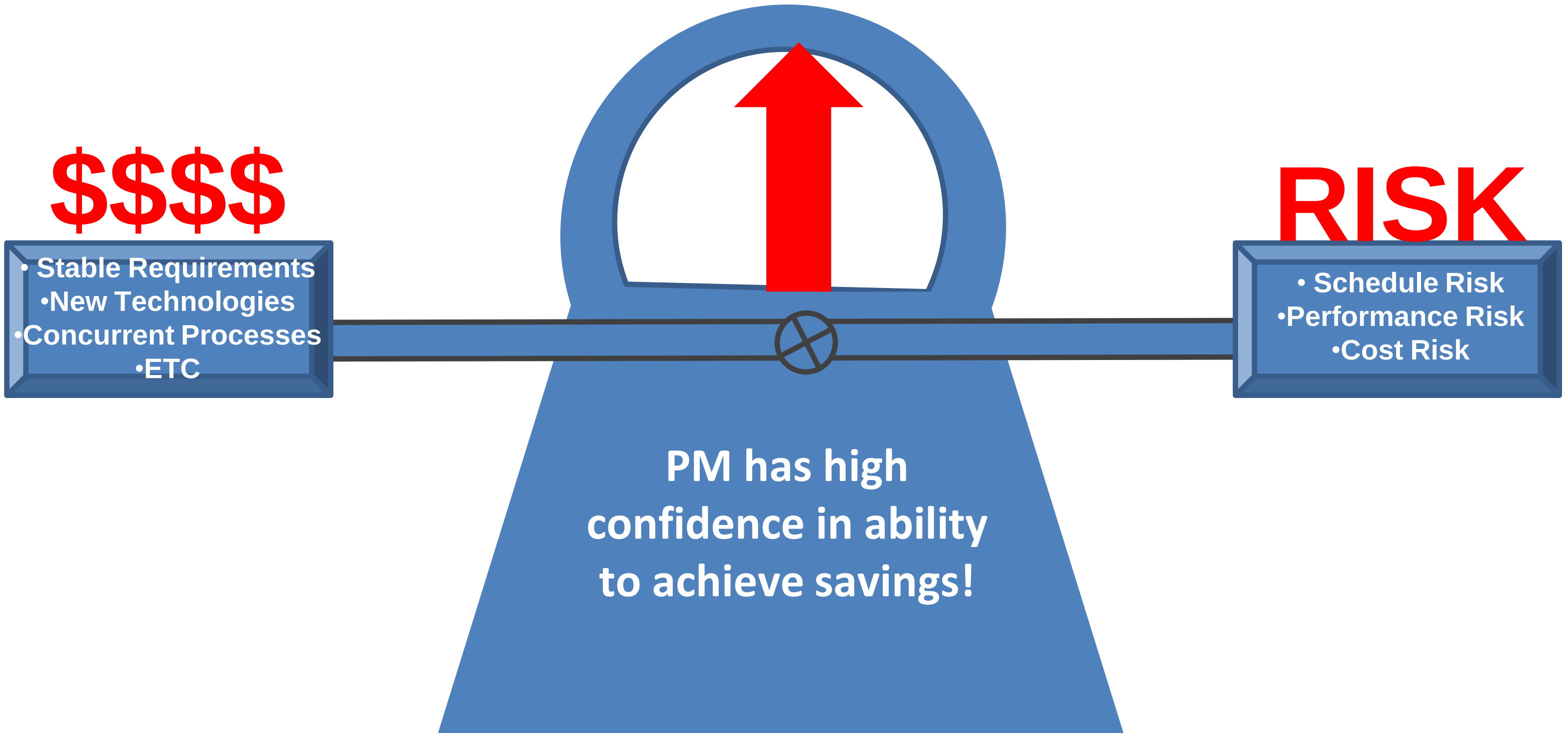
- Who owns?
  - Program office develops, owns, reports & tracks the program-level should cost estimate. Program manager (PM) recommends to MDA (AT&L/AAE) for approval.
- When required?
  - All milestone decisions or other decisions going before OUSD(AT&L) and AAE; annual updates/progress reporting.
- Which programs?
  - ACAT I, II and III
- Intent:
  - A DoD internal management tool used to incentivize performance to targets.
  - Based on realistic technical and schedule baselines and assumes success-oriented outcomes from implementation of efficiencies, lessons learned, and best practices.
  - Designed to drive productivity improvements in our programs and will incorporate results of contract direct and indirect cost reviews (See FAR 15.407-4 and DFARS 215-407-4 should-cost reviews) when they are conducted.

'Should cost' demolishes the assumption that historical data, which are the basis for the program's independent cost estimate, represent efficient economical operation.

Should-Cost Definition (What it's not!)

- What it is not:
  - Broad challenges by management to reduce cost through straight reductions by a specified percentage or dollar value against the will-cost estimate are not valid should-cost estimates. Estimates are expected to have specific actionable content associated with reductions.
  - Anything requiring significant investment for completion and an increase to the budget is outside the scope of the should-cost estimate and should be shown separately for consideration
  - Most items outside the control of the program office and inconsistent with the current program of record are outside excursions and not appropriate for the should-cost estimate. However, these can be raised with Stakeholder concurrence or if PM/PEO believes Senior Leaders will support implementation
    - Example: economic production rates

Managing to Budget/Managing Risk



PMs maintain a balance between potential cost savings and risk

Actions to Implement BBP

- **LEVERAGING REAL COMPETITION:** Avoid directed buys and other substitutes for real competition. Use technical data packages and open systems architectures to support a continuous competitive environment.
- **USING PROPER CONTRACT TYPE FOR DEVELOPMENT AND PROCUREMENT:** Phase out award-fee contracts and favor fixed-price or cost-type incentive contracts in which government and industry share equally in overruns and underruns, and overruns have analytically-based caps. Use cost-reimbursement contracts only when either government requirements or industry processes cannot be adequately specified to support pricing. Adjust sole-source fixed-price contracts over time to reflect realized costs. Work down undefinitized contract actions. Seek authority for multi-year contracts where significant savings are possible.
- **USING PROPER CONTRACT TYPE FOR SERVICES:** Phase out Time and Material and sole-source ID/IQ contracts wherever possible. Utilize fixed-price performance-based contracts when requirements are firm and can be measured, with payments tied to performance. Utilize fixed-price level of effort or cost-plus-fixed-fee contracts (with profit/fee tied to weighted guidelines) when requirements are still being defined. Award fees should be used only by exception. Maximize the use of multiple-source, continuously competitive contracts.
- **ALIGNING POLICY ON PROFIT AND FEE TO CIRCUMSTANCE:** Align opportunity to earn profits/fees to both value to the taxpayer and risk to the contractor. Apply weighted guidelines to profit/fee levels. Reward higher productivity with higher profits. Incentivize investment in innovation.
- **SHARING THE BENEFITS OF CASH FLOW:** Ensure that taxpayers receive adequate consideration (price reductions) for improved cash flows. Progress payments must reflect performance but can be increased above customary levels in return of consideration by the contractor. Reduce over time the gap between proposed and actual rates in forward price rate agreements.
- **TARGETING NON-VALUE-ADDED COSTS:** Identify and eliminate non-value-added overhead and G&A charged to contracts. Limit fees for subcontractor management to reflect actual value provided (risk assumed by prime and continuous subcontractor risk reduction). Limit B&P allowable costs in sole source contracts and encourage effective use of IRAD.

Actions to Implement BBP (cont.)

- **INVOLVING DYNAMIC SMALL BUSINESS IN DEFENSE:** When establishing multiple award contracts for services, make every effort to provide small business participation. If at least two small businesses are deemed capable of performing on such a contract, consider setting aside that work for competition among them.
- **REWARDING EXCELLENT SUPPLIERS:** Emulate the navy's pilot program to provide special benefits to consistently excellent industrial performers.
- **ADOPTING "SHOULD-COST" AND "WILL-COST" MANAGEMENT:** Use historically informed independent cost estimation ("will-cost" estimates) to inform managing of programs to cost objectives ("should-cost" estimates).
- **STRENGTHENING THE ACQUISITION WORKFORCE:** Achieve SECDEF goal of adding to government acquisition workforce with increased skill levels. Leverage unique qualities of non-profit FFRDS and UARCs to augment acquisition workforce capability.
- **IMPROVING AUDITS:** Improve consistency and quality of government audits, and focus them on value-added content.
- **MANDATING AFFORDABILITY AS A REQUIREMENT:** In new programs cost considerations must shape requirements and design.
- **STABILIZING PRODUCTION RATES:** To ensure more programs are stable, economically favorable rates of production and avoid cost escalation, program managers may not adjust product rates downward without head of component authority.
- **ELIMINATING REDUNDANCY WITHIN WARFIGHTING PORTFOLIOS:** Emulate the Army's Precision Fires Capability Portfolio approach to identify where multiple programs are pursuing similar objectives.
- **ESTABLISHING SENIOR MANAGERS FOR PRODCUREMENT OF SERVICES:** Follow the Air Force lead in establishing a Program Executive Officer for services in each DoD component to focus on improving policy and practice in this high-dollar area.
- **PROTECTING THE TECHNOLOGY BASE:** Protect the future by sustaining investment while focusing on high-value-added work.

Preference towards FPIF Contract Type with 50/50 Cost Share and 120% Ceiling

AT&L Intent: *(when programs are mature, with well established, stable designs.)*

- By employing Fixed Price contracts a clear and mutual understanding of the requirements by both buyer and seller is reached.
- Equal Cost Share is recommended as the starting point to be departed from by exception because a 50/50 cost share represents acknowledgement by both parties that the target price is reasonable.
- Incentive Fee – Creates a monetary inducement for Industry to reduce cost and increase productivity.
- If the target price is properly negotiated the 120% ceiling allows contractors to assume an appropriate level of risk.

AT&L Caveats:

- Implementation will be key to success.
- Intentional use of Incremental/Spiral Development could alleviate the need to define all requirements to the required level at the start of the program.

Integrating Creative Financing Practices into Contracts

- Seeks to leverage the unique situation where contractors gain time-value of money benefits through incremental payments by DoD made prior to product delivery.

- Reward Supply chain management

- Increase training for Acquisition Workforce to be able to properly leverage contract type and funding availability.

- Identify pilot programs to use innovative financing methods as a negotiating tool.
  - Use DPAP “cash flow model”

Increasing the Use of FPRRs

- No Army action required to negotiate or audit FPRRs
- Additional training through DAU for Contracting Workforce on appropriate commercial practices for rate structuring.
- Increased involvement of DCMA personnel in proposal negotiations where FPRAs are absent.

Improving Trade Craft in Acquisition of Services

- Army Portfolio $50B+ (Less construction, A&E and R&D)
- Significant adjustment for non-PM requirements community
- Significant adjustment for PM community in Knowledge base services portfolio
- Recording Data at requiring activity
  - Competition
  - 1-Bids
  - Small Business?

Aligning DCMA and DCAA Processes

- Increased training for contracting officers/specialists to learn functionality and effectively employ the new system.

- Requirement for contracting officers/specialists to ensure focused requests for audit support.

- Proposal walk-through and participation in negotiations.

Just a Few Examples…

- Requesting submission of other than certified cost or pricing data, and then reviewing, analyzing and negotiating based upon that data.
- Leadership support to compete a follow-on buy for several major Army weapon systems (investing time & money)
- Requiring full TDPs as a deliverable under a competitive buy
- Scrutinizing “commerciality” claims and rejecting when not supportable (securing cost & pricing data)
- Use of customary progress payments as norm; alternate financing negotiated after price is determined.
- Revising a CPFF contract to a CPIF contract type
- Maximize use of Fixed Price and Fixed Price Incentive contracts
- Converting Time & Material contracts to Cost Plus Fixed Fee or Firm Fixed Price Level of Effort contracts
- Maximizing opportunities to use Small Business and Small Disadvantaged Business set asides
- Use performance and cost incentives to improve performance
- Aligning profit to risk borne by contractors (i.e. definitizing actions)
- Providing enhanced training to Contractor Officer Representatives

Questions?