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**U.S. Army Contracting Command**



# Better Buying Initiative

## Army Contracting Command Impacts

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12 April 2011

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## ***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.**

# 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**

## 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**

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



***U.S. Army Contracting Command***



***BACKUP***



## U.S. Army Contracting Command



- **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. Reducer 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.
- **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.



## U.S. Army Contracting Command



- **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 such as the SSBN-X nuclear missile submarine, the Presidential Helicopter, the Ground Combat Vehicle and the Air Force/Navy Long Range Strike Family of Systems, 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.



## ***“Should Cost” Management of Programs***

- **Should Cost Estimates**
  - Removes assumption that historical data on a contractor represents efficient economical operation.
  - Evaluates economy of current workforce, methods, materials, equipment, systems and management.
- **Program Offices to Manage to “Natural Cost” (Should Cost) of a program.**
  - PMs will only be given funds at the Should Cost level.
  - Delta between Should Cost and Will Cost funding levels to be held at RM level
  - Develop Should Cost estimates and identify trades and efficiencies to execute
  - Identify areas (cost/schedule/technical capabilities) where efficiencies could be applied.
  - PMs incentivized and rated according to ability to execute to Should Cost amount.
  - Execution delta between Will Cost budget and actuals provided back to PM for burndown of 1-N priority
- **PMs establish guidance and methodology for determining Should Cost estimates.**
- **RMs update budgets in Resource Baseline**



## ***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 – “Fee on Fee”
- 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” (to be developed)



## ***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?



## ***Eliminate Low Value-Add Processes and Reports***

- **Re-orient OSD Acquisition Program Reviews**

Prioritize 1D Programs focusing OSD oversight reviews on the right set of the most critical programs; delegate oversight review of all other 1Ds and below to the Components with OSD representation to improve communication, facilitate earlier resolution of issues, and provide assistance to the PM. Streamline OSD milestone reviews; minimize/eliminate OSD reviews between milestone reviews. Create agility in AT&L structures/processes to better align and use resources engaging programs at key milestone decisions to strengthen the front end of the process (pre and MS A) to start and sustain (MS B and C) programs the right way for better program outcomes. Scale the role of the OIPT to enhance the proper program management role of the PEO and PM.

- **Adapt Nunn-McCurdy Rules for Special Situations**

Direct preparation of a legislative change proposal that would allow the USD(AT&L), in consultation with CAPE, to declare an “administrative/technical” critical breach, with a requirement for Congressional notification (with rationale) to replace the requirement for conduct of the full Nunn-McCurdy critical breach process.

- **Rescind Retroactive 2366a and 2366b Certifications**

Direct discussions with congressional staff and preparation of a legislative change proposal to rescind requirement to conduct retroactive 10 USC 2366a and 10 USC 2366b certifications (as enacted in WSARA 2009, sections 204 & 205).