

DoD Logistics



Alan Estevez | Principal Deputy Assistant Secretary of Defense
Logistics and Materiel Readiness



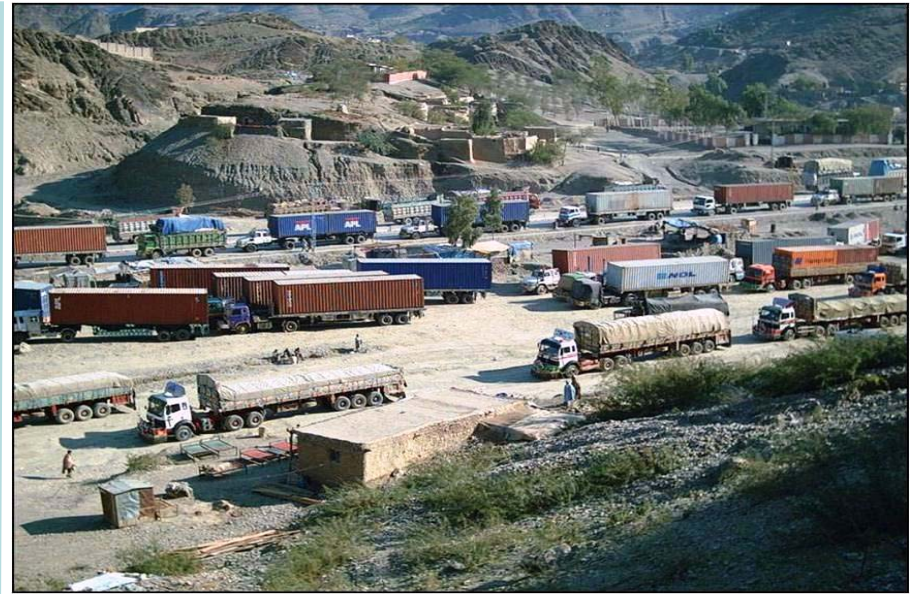
National Defense Industrial Association

Arlington, VA

September 17, 2010



Operational Environment





Logistics Efficiencies

Expeditionary Camp Standardization



Defense Trans Coordination Initiative

DoD Domestic Freight Management Today:



DoD Domestic Freight Management Tomorrow:

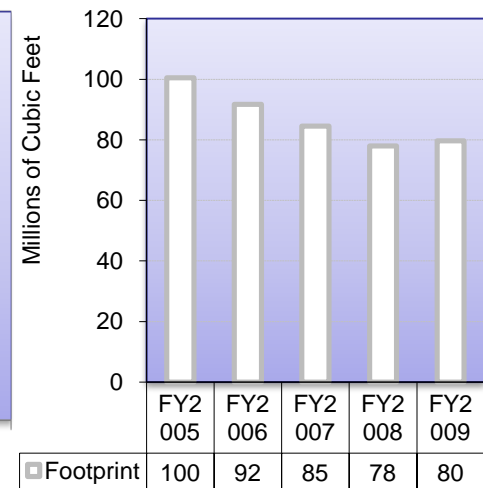
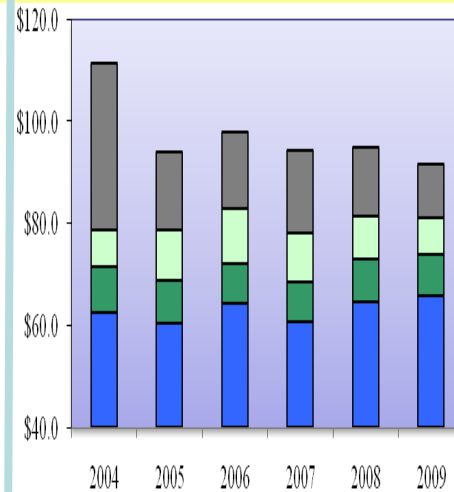


Radio Frequency Identification

- Tracking critical and nuclear weapon related materiel
- Established Distribution Depot Center of Excellence
- 98% of shipments to Afghanistan and Iraq tagged
- Leveraging actionable metrics
 - 16% to 39% productivity improvement
 - 8 days avg. reduction in CWT



Improve Inventory Management



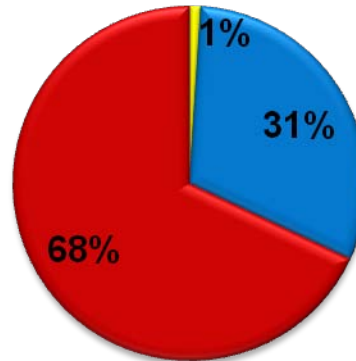


Managing DoD Total Ownership Cost (TOC)

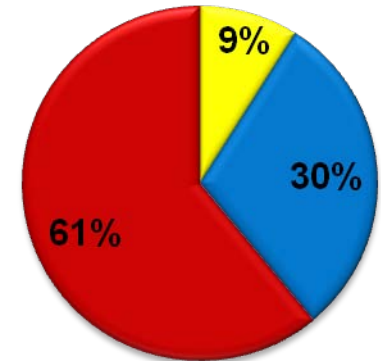
National Interest:

- ✓ WSARA – May '09
- ✓ CAPE Report to Congress
- ✓ GAO Study - ongoing
- ✓ WSAR PSA – Nov '09
- ✓ Service Initiatives/BCAs
- ✓ QDR
- ✓ Budget Pressures

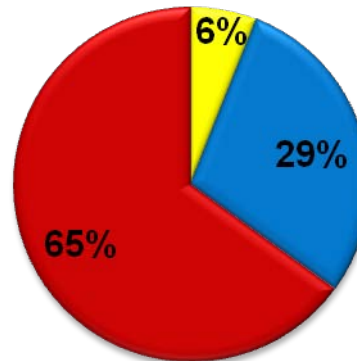
Surface Ships



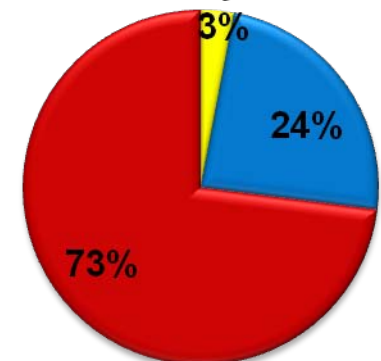
Fixed Wing Aircraft - Fighters



Rotary Wing Aircraft



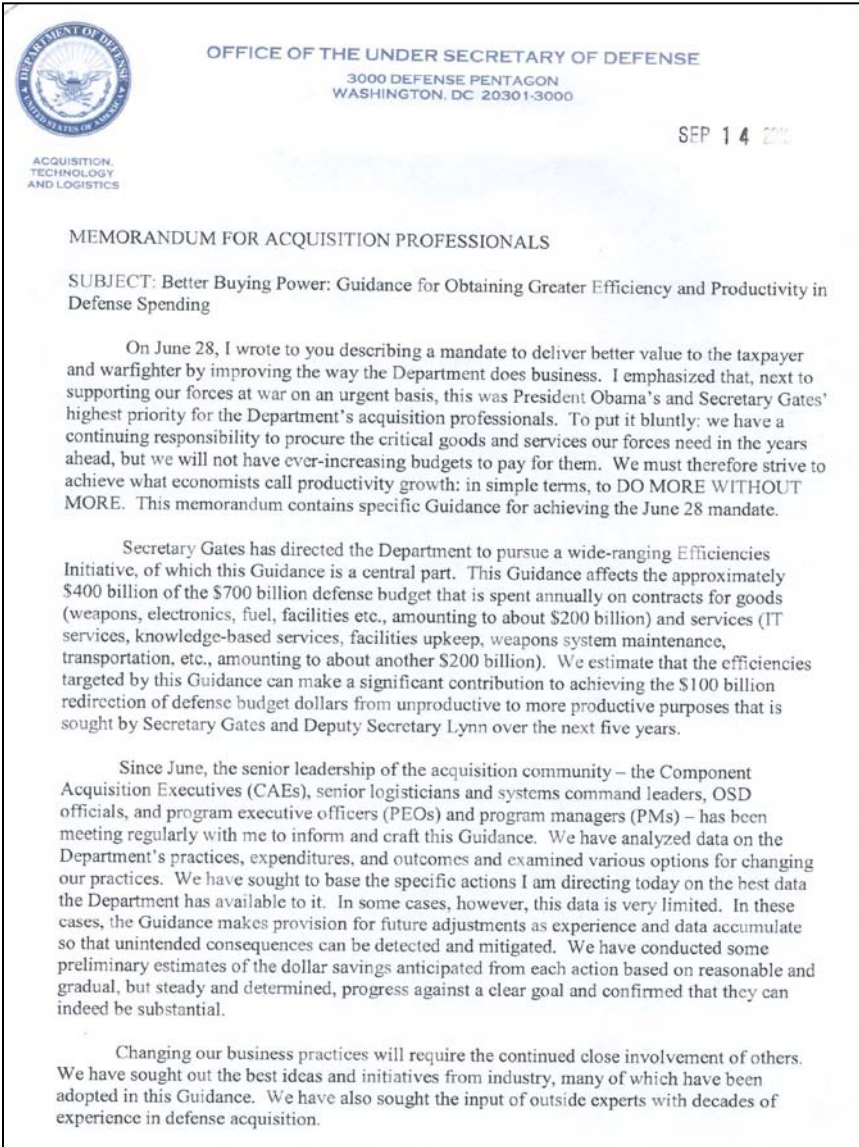
Ground Systems



*Need to formulate OUSD(AT&L) strategy (within the DoD strategy)
for TOC influence and management*



Better Buying Power – Dr. Carter Published September 14, 2010



Why this effort and why now?

“There is every reason to believe the efficiencies we are seeking can be realized. It has taken years for excessive costs and unproductive overhead to creep into our business practices, but over the coming years we can surely work them out again.”

“Those who hesitate to do down the road of great efficiency must consider the alternative: broken or cancelled programs, budget turbulence, uncertainty and unpredictability for industry, erosion of taxpayer confidence that they are getting value for their defense dollar, and above all, lost capability for the warfighter in a dangerous world. Not only can we succeed: we must.”



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SEP 14 2010

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

MEMORANDUM FOR ACQUISITION PROFESSIONALS

SUBJECT: Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending

On June 28, I wrote to you describing a mandate to deliver better value to the taxpayer and warfighter by improving the way the Department does business. I emphasized that, next to supporting our forces at war on an urgent basis, this was President Obama's and Secretary Gates' highest priority for the Department's acquisition professionals. To put it bluntly: we have a continuing responsibility to procure the critical goods and services our forces need in the years ahead, but we will not have ever-increasing budgets to pay for them. We must therefore strive to achieve what economists call productivity growth: in simple terms, to DO MORE WITHOUT MORE. This memorandum contains specific Guidance for achieving the June 28 mandate.

Secretary Gates has directed the Department to pursue a wide-ranging Efficiencies Initiative, of which this Guidance is a central part. This Guidance affects the approximately \$400 billion of the \$700 billion defense budget that is spent annually on contracts for goods (weapons, electronics, fuel, facilities etc., amounting to about \$200 billion) and services (IT services, knowledge-based services, facilities upkeep, weapons system maintenance, transportation, etc., amounting to about another \$200 billion). We estimate that the efficiencies targeted by this Guidance can make a significant contribution to achieving the \$100 billion redirection of defense budget dollars from unproductive to more productive purposes that is sought by Secretary Gates and Deputy Secretary Lynn over the next five years.

Since June, the senior leadership of the acquisition community – the Component Acquisition Executives (CAEs), senior logisticians and systems command leaders, OSD officials, and program executive officers (PEOs) and program managers (PMs) – has been meeting regularly with me to inform and craft this Guidance. We have analyzed data on the Department's practices, expenditures, and outcomes and examined various options for changing our practices. We have sought to base the specific actions I am directing today on the best data the Department has available to it. In some cases, however, this data is very limited. In these cases, the Guidance makes provision for future adjustments as experience and data accumulate so that unintended consequences can be detected and mitigated. We have conducted some preliminary estimates of the dollar savings anticipated from each action based on reasonable and gradual, but steady and determined, progress against a clear goal and confirmed that they can indeed be substantial.

Changing our business practices will require the continued close involvement of others. We have sought out the best ideas and initiatives from industry, many of which have been adopted in this Guidance. We have also sought the input of outside experts with decades of experience in defense acquisition.

Five “High Grounds”

- Target Affordability and Cost Growth
- Incentivize Productivity and Innovation In Industry
- Promote Real Competition
- Improve Tradecraft in Services Acquisition
- Reduce Non-Productive Processes and Bureaucracy



Guidance Roadmap

Target Affordability and Control Cost Growth

- **Mandate affordability as a requirement**
 - At Milestone A set affordability target as a Key Performance Parameter
 - At Milestone B 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 a 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 Services Acquisition

- 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 those necessary to support major investment decisions or to uncover 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



Questions?

