

Better Buying Power: Implications for A&D Programs

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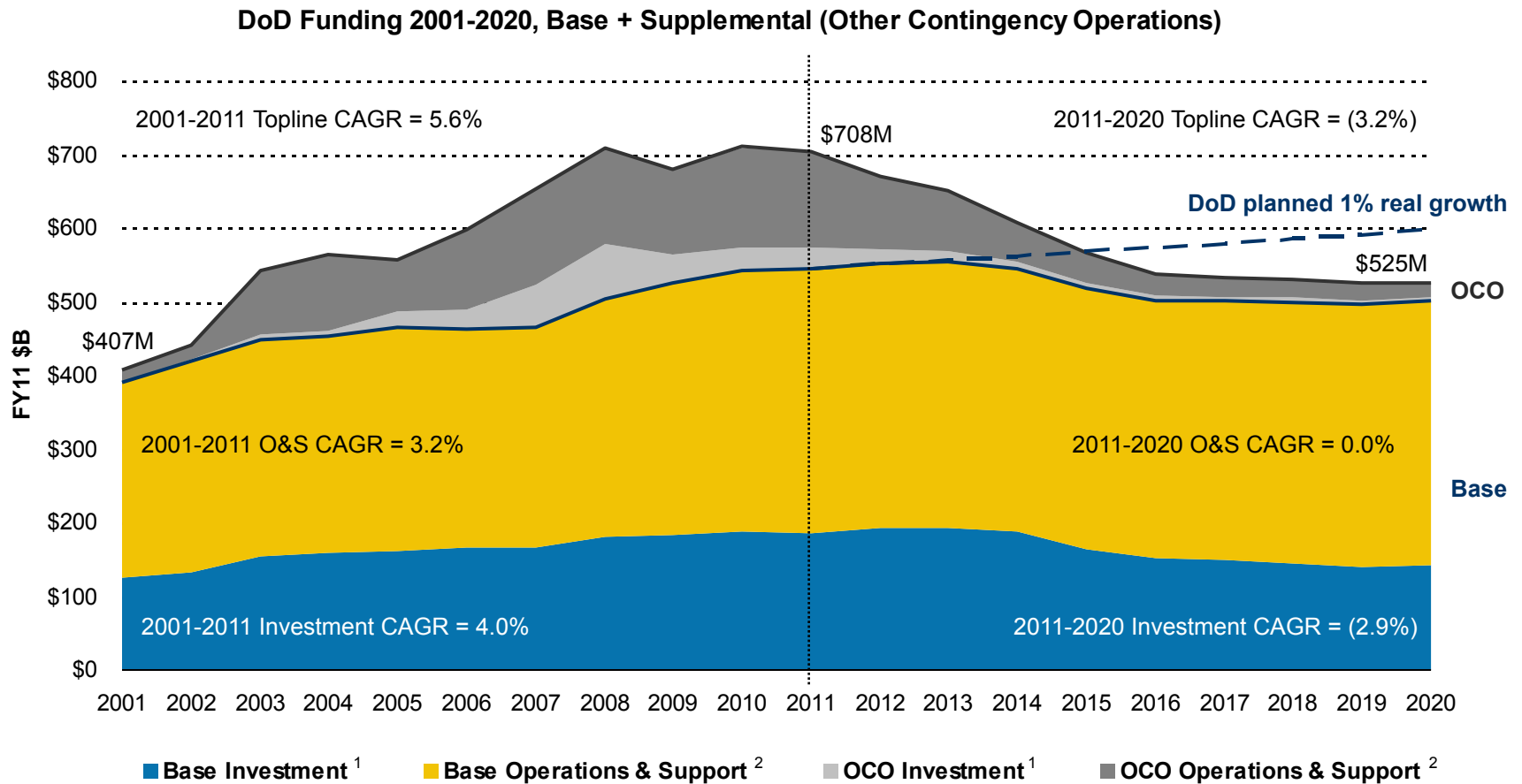
Agenda

- Defense Market Trends
 - Spending Outlook
 - DoD Reform

- Better Buying Power
 - Initiatives
 - Implications for Programs
 - Implications for Industry

Defense Market Trends: US Budget Outlook

Investment funding in the base account should remain at least flat through 2014 despite declining DoD topline funding



Notes: ¹ Investment = Procurement + RDT&E
² Operations & Support = O&M, MILPERS, MILCON & Other

Defense Market Trends: DoD Reform Agenda

In order to meet needs on a more limited budget, DoD leadership has initiated several major thrusts to improve efficiency and control costs

- Review programs (April 2009)
 - Announcement by Secretary Gates and FY10 budget roll-out
 - Complete F-22, C-17 production
 - Terminate troubled programs: VH-71, CSAR-X, FCS, TSAT
- Improve department-wide efficiencies (May 2010)
 - Efficiency Initiatives launched by Secretary Gates targeting \$100B savings over 5 years, to be reinvested in the DoD budget
 - Reduce overheads: contractor support, agencies & Combatant Commands, senior personnel, and oversight reporting & studies
 - Streamline organization: intelligence, IT, and Joint Forces Command
- Reform acquisition processes (September 2010)
 - “Better Buying Power” memo to acquisition professionals from USD(AT&L) Carter
 - Implement more efficient and productive acquisition strategies to achieve better program performance

Better Buying Power: Key Initiatives

Carter laid out 23 specific actions that can be condensed into 4 main initiatives aimed at improving acquisition performance

1 Manage costs & affordability

- Target affordability and responsiveness in program and requirements management without unduly burdening contractors
- Example actions:
 - Will / should cost management
 - Economical production rates
 - Program schedule management
 - Contractor incentives
- Programs cited: SSBN(X), JSF, GCV

2 Promote greater competition

- Introduce real competition for all programs and target incumbency to the extent possible
- Example actions:
 - Acquire data rights, use open architectures
 - Compete development through Milestone C
 - Negotiate sole-source awards
 - Emphasize small business participation
- Programs cited: LCS, *Virginia*-class SSN

3 Conduct DoD-wide portfolio reviews

- Ensure programs provide distinct value relative to overall service or DoD portfolios
- Example actions:
 - Eliminate redundant programs & capabilities
 - Avoid costly niche or “exquisite” systems or capabilities when the current portfolio may suffice
- Programs cited: NLOS-LS, air/missile defense

4 Assert broader acquisition oversight

- Improve program performance through more direct DoD management at all system levels
- Example actions:
 - Incentivize successful supply chain management
 - Compete subsystems to improve performance
 - Reduce reliance on SETA contractors
- Programs cited: DDG-51



Better Buying Power: Signature Programs

High-priority programs in each service illustrate application of these acquisition initiatives relative to predecessor programs

Program	Previous Program Incarnation & Acquisition Strategy	Current Acquisition Strategy
Ground Combat Vehicle <i>GCV</i>	<p><i>Future Combat Systems (FCS)</i></p> <ul style="list-style-type: none"> • Lead Systems Integrator for architecture • Production teaming for vehicle • Develop desired technology to field • Complex system requirements 	<ul style="list-style-type: none"> • US Army leads concept development • Competition for RDT&E, possibly production • Field in 7 years using existing technology • Simplified “Big 4” core requirements
Fleet Ballistic Missile Submarine Replacement <i>SSBN(X)</i>	<i>n/a</i>	<ul style="list-style-type: none"> • Review and revision of requirements to improve affordability • Leverages open architecture subsystems developed for <i>Virginia</i>-class SSN
Next-Generation Long-Range Strike	<p><i>Next-Generation Bomber</i></p> <ul style="list-style-type: none"> • Single platform dedicated to niche role • Traditional manned aircraft configuration and systems 	<ul style="list-style-type: none"> • Concept for multi-mission family of systems • Analysis of capabilities spanning unmanned options, open systems architectures, and advanced sensors
Presidential Helicopter <i>VXX</i>	<p><i>VH-71 Executive Helicopter</i></p> <ul style="list-style-type: none"> • Managed to evolving, demanding system-level requirements • Desired “exquisite” capabilities contributed to cost, schedule problems 	<ul style="list-style-type: none"> • Managed to affordability with greater attention to subsystem-level details • Focus on modular capabilities and proven solutions

Better Buying Power: Program Implications I



Acquisition strategies strongly aligned with announced initiatives are positioned to succeed given acceptable program performance

Program	Program Details	Alignment with Acquisition Initiatives
<p>Enhanced Medium-Altitude Recon & Surveillance System (EMARSS)</p> 	<p>US Army</p> <p>\$1.6B+ 36 aircraft + CLS</p> <p>Award 2010 EMD / LRIP option</p>	<ul style="list-style-type: none"> • Emphasis on affordability & responsiveness • Multi-mission capability presents opportunity for modular approach using open systems architecture • Option for competition at Milestone C / LRIP decision • Proven concept via Project Liberty / Constant Hawk with understood risks • Hybrid fixed-price / cost-plus contract with incentives
<p>Nett Warrior (Ground Soldier System Increment 1)</p> 	<p>US Army</p> <p>\$2.2B+ 20,500 systems</p> <p>Award 2011 LRIP / FRP option</p>	<ul style="list-style-type: none"> • Competition through Milestone C (GD C4 Systems, Raytheon, Rockwell Collins) with potential multiple fixed-price type production awards • Use of mature commercial technologies • Open architecture, modular approach encourages future competition for evolved capabilities • US Army leading system architecture development, including ownership of software and applications

...Sources: FY11 DoD budget materials, CRS reports, program documents, CRA analysis
 Images courtesy of af.mil, army.mil

Better Buying Power: Program Implications II

Despite strong alignment with acquisition reform initiatives, programs experiencing execution challenges continue to face uncertainty



Program	Program Details	Alignment with Initiatives	Execution Challenges
Littoral Combat Ship (LCS) 	US Navy \$30B 55 ships Award 2010 FRP	<ul style="list-style-type: none"> • Multiple hull suppliers • Open architecture with common combat system and mission modules IP controlled by Navy • Funded at economical production rates • Fixed-price plus incentive production contracts 	<ul style="list-style-type: none"> • Hull development cost and schedule overruns • Evaluation delays may impact funding & production • Critical mission module capabilities not yet ready • Balancing management of competition, requirements, and program performance
EnhancedView 	NRO, NGA \$15B 4 satellites + services Awarded 2010 SDD / Services	<ul style="list-style-type: none"> • “2+2” high / low approach promotes competition and mitigates risks associated with exquisite satellites • Affordable and responsive imagery / analysis solutions • Risk sharing between USG and industry for funding to develop GeoEye satellite 	<ul style="list-style-type: none"> • Inherent difficulty in high-end system development, as seen in predecessor programs (FIA, BASIC)¹ • Efficient oversight of commercial development • Implications of 10-year duration for competition vs. incumbency

Sources: FY11 DoD budget materials, CRS reports, program documents, CRA analysis
 Images courtesy of navy.mil, nasa.gov

Notes: ¹ Future Imagery Architecture, Broad Area Surveillance Intelligence Capability

Better Buying Power: Program Implications III

Programs performing well but not fully structured in accordance with new acquisition initiatives may encounter increasing uncertainty

Program	Program Details	Alignment with Initiatives	Structural Challenges
Joint Light Tactical Vehicle (JLTV) 	US Army US Marine Corps \$20B+ 65,000 trucks Award 2012 EMD	<ul style="list-style-type: none"> • Competition of 3 designs through Milestone B, with full & open competition for 2 designs through MS C • Modular open system architecture (e.g., scalable protection, C4ISR) • Potential fixed-price plus incentive contract for EMD 	<ul style="list-style-type: none"> • Potential redundancies with existing HMMWV¹ and MRAP / M-ATV² fleets • Affordability relative to HMMWV upgrade options • USMC concerns could impact strategy • Unclear implications of EMD recompet
Wide Area Airborne Surveillance (WAAS) 	US Air Force \$1.5B+ 45+ systems Awarded 2009 QRC Award 2011 SDD	<ul style="list-style-type: none"> • Funded 3 initial QRC³ solutions (Gorgon Stare, AWAPSS,⁴ Angel Fire) • Schedule responsive to urgent needs • Architecture intended to fit multiple aircraft types and existing back-end data processing capabilities 	<ul style="list-style-type: none"> • Pursue single USAF WAAS program of record rather than redundant service requirements • Costs trending toward “exquisite,” resulting in scrutiny if urgency abates • Congressional concerns about maturity and cost

Sources: FY11 DoD budget materials, CRS reports, Army Tactical Wheeled Vehicle strategy, program documents, CRA analysis
 Images courtesy of army.mil, DoD presentation to NDIA

Notes: ¹ High Mobility Multipurpose Wheeled Vehicle; ² Mine-Resistant Ambush-Protected Vehicle / MRAP-All Terrain Vehicle
³ Quick-Reaction Capability; ⁴ Airborne Wide-Area Persistent Surveillance System

Better Buying Power: Implications for Industry

Recent *CRA Insights* describes “The Monopsonist’s Dilemma”: use of buying power to improve performance while incentivizing commitment

- Responsiveness: programs must be well-executed
- War on incumbency: suppliers cannot rest on current positions
- Other shoes to fall: outlying programs will be targeted
- TSPR is dead: unbundling of subsystem, support roles
- Bogeymen: goal is to reduce costs—not to curtail profits
- Command & Control: requires careful implementation and coordination by DoD

Questions?



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