



DoD Business Panel Proposes \$125B in Savings

By Paul McLeary 10:58 a.m. EST January 25, 2015



(Photo: Glenn Fawcett/Office of the Secretary of Defense)

WASHINGTON — The Pentagon's Defense Business Board (DBB) issued a series of recommendations on Jan. 22 calling on the Defense Department to slash \$125 billion in spending over the next five years by reducing services from contractors, implementing early retirements, reworking contracts and reducing administrative costs.

The report comes at the direction of Deputy Defense Secretary Bob Work, whose October 2014 memo to the civilian panel instructed it to form a Task Group "to review and recommend changes to the Department's current plans for enterprise modernization."

Specifically, Work wanted advice on how private sector organizations consolidate their information technology (IT) services and to "recommend ways to best reconfigure all or part of DoD's supporting business process and their associated IT."

He also wanted the board to recommend an approach to quantify "the economic value of modernization on a productivity basis," and how modernizing department business practices would help it gain further efficiencies.

The DBB released its findings just a week before the fiscal 2016 defense budget is due to be unveiled.

The task group identified more than 1 million people working in the DoD's human resources, health care, financial, logistics, acquisition and property management fields. It claimed that by renegotiating contracts with vendors, offering early retirements and retraining employees to be more efficient, the building could save about \$125 billion between fiscal 2016 and 2020, or about \$25 billion a year.

Those savings could then be pumped back into the force, the board claims, and would equal the funding it takes to field 50 Army brigades, 10 Navy carrier strike groups or 83 Air Force F-35 fighter wings.

The three biggest cost saving initiatives identified between 2016 and 2020 are \$49 billion to \$89 billion through "more rigorous vendor negotiations" for contracted goods and services; another \$23 billion to \$53 billion through retirement and attrition of defense civilians and contractors, also reducing redundancy; and \$5 billion to \$9 billion in its IT processes through data center consolidation, cloud migration and automating some functions.

Work's Oct. 15 memo said the DoD spends about \$100 billion annually on "core business processes," which he identified as human resources and healthcare management, financial management, logistics and supply, and property management.

"My goal is to modernize our business processes and supporting systems and create an agile enterprise shared services organization in order to reduce costs, maximize return on investment, and improve performance," he wrote.

The study also includes deep looks at the business processes of Lockheed Martin, Pepsi Co., Hewlett Packard, and IBM.

The inclusion of such large commercial firms has raised some eyebrows, however.

"Commercial businesses tolerate risk because the worst that can happen to their business is that they lose some money" said Steven Grundman, Lund Fellow for Emerging Defense Challenges at the Atlantic Council.

"The military organizes and costs for risk because there are far more consequential interests that they are guarding than money, and mitigating risk is expensive and one reason the analog between business and the military is imperfect at best."

The DBB also looked at several Pentagon programs to gain some insight on how procurement practices can be streamlined. They studied the Army Logistics Support Agency's successful outsourcing its data center, the 10-year, \$1 billion failure of the Defense Integrated Military Human Resources System, which was canceled in 2010, and the Air Force's \$1.1 billion Expeditionary Combat Support System failure.

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