

Opinion: Apply ‘Bazaar’ Approach To Procurement

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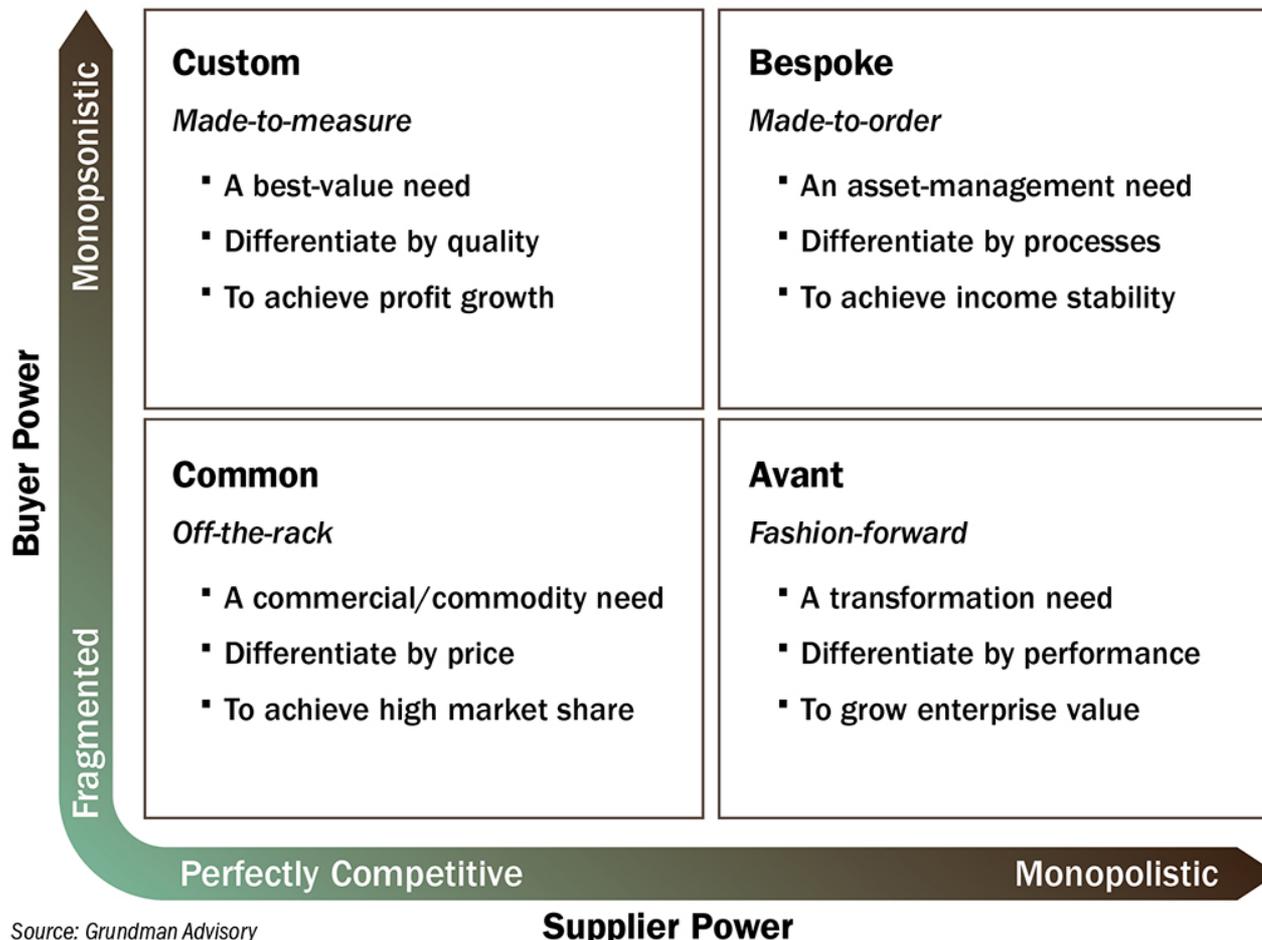
‘Savvy shopping’ for suits and satellites

Several recent headlines—*Senators Call For Oversight On LRS-B Cost Estimates*, *Oshkosh Wins JLTV Award*, *Kendall ‘Open-Minded’ On Sharing RD-180 Replacement Costs*, *Can Secretary Carter Win Over Silicon Valley?*—got me thinking about shopping for clothes and defense acquisition and why both are so persistently tough. It is the maddening variety of them. If weapons were three-piece suits, the difficulty would be akin to shopping smartly from Savile Row to Sears while still scoring points on fashionista.com.

Navigating such diverse markets without getting taken to the cleaners requires careful discernment of means and ends—one’s own and those of the vendors. There is arguably good value in a single pair of trousers costing \$20, \$200 or \$2,000, but you need to know how to make key distinctions.

So, too, in defense acquisition. For our militaries’ better buyers, the obverse of Michael Porter’s catechism for competitive advantage is equally instructive: Figure out how to exploit the particular dynamics of competition each program opportunity will activate, and you can buy the weapon with greater efficiency and productivity.

Four Defense Markets



Source: Grundman Advisory

Smart acquisition requires understanding the power dynamics in the structure of the market. And although

program acquisition strategies address a multitude of product markets—e.g., strategic aircraft, armored trucks and rocket propulsion—a coarse summary of their power dynamics suggests four metamarkets that can facilitate the making of distinctions in defense acquisition. Each is characterized by the type of need it fulfills, the form of differentiation that matters most in it and the financial measure that shapes supplier incentives:

- **Bespoke.** A Bespoke market is where ministries procure their most exquisite, capital-intensive industrial capabilities from a concentrated caste of franchise holders. The Long-Range Strike Bomber program exemplifies this. Like Savile Row, this is a gentlemanly marketplace of quiet extravagance paced to a clockspeed of generations and fueled by the costly privilege of buyers' obsessive control over it.

- **Custom.** A Custom market is where ministries find the preponderance of their weapon systems for sale by a small but rivalrous band of competitors. The Joint Light Tactical Vehicle program exemplifies the needs that are met in this made-to-measure market. Because of the power asymmetry that defines it and the profit-growth imperative on its suppliers, in this contentious arena buyers expect good value while suppliers generally feel the squeeze.

- **Common.** This market is where ministries bargain hunt to access the scale efficiencies their otherwise rarified needs do not make possible. Slightly amplifying remarks by Frank Kendall, undersecretary of Defense, about how the Pentagon may acquire a new boost-stage rocket engine illustrates the market's proletarian appeal: "Rather than just paying for new-engine development [in Custom or Bespoke markets], the approach we would prefer is to help someone close their business case for providing launch services [so we can buy them in the Common market at lower total cost]." Of course, this is a raucous bazaar to the defense buyer, where to participate effectively he must gain confidence in the discipline of the clamor to drive low prices with acceptable quality.

- **Avant.** This market is where defense customers look for cutting-edge transformation of their capabilities. However, on these runways the market-power asymmetry is tilted against the ministry and suppliers are amenable to only as much control as investment capital will buy them. This is why Defense Secretary Ashton Carter's trip to Silicon Valley in August was punctuated by announcement of the Pentagon's \$75 million investment in a public-private venture to develop flexible electronics.

The Pentagon says this investment will advance "new techniques in electronic device handling and high-precision printing on flexible, stretchable substrates . . . [enabling] wearable devices to improved medical health-monitoring technologies."

So apparently a weapon system may yet be a three-piece suit.

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