

The Challenges We Face— And How We Will Meet Them

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"Supporting the warfighter, protecting the taxpayer"—these words were suggested by my military assistant for a small sign outside the door to my office in the Pentagon. They succinctly express the challenges those of us who work in defense acquisition, technology, and logistics face in the austere times we have entered. We will have to provide the services and products our warfighters need and protect the taxpayers' interest by obtaining as much value as we possibly can for every dollar entrusted to us. This is nothing new; we have always tried to do this. Going forward, however, we will have to accomplish this goal without reliance on large overseas contingency funding and in the face of continued pressure on defense budgets brought about not by a change in the national security environment, which is increasingly challenging particularly with the emergence of more technologically and operationally sophisticated potential opponents, but by the policy imperative to reduce the annual budget deficit. Hopefully, the specter of more than \$50 billion in sequestration cuts next year will be avoided, but, even if it is, we can expect the pressure on defense budgets to increase. Last winter, the department published new strategic guidance as well as a budget designed to implement that strategy. Like all budgets, this one did not make any allowance for overruns, schedule slips, or increases in costs for services beyond the standard indices assumed by the Office of Management and Budget, indices that often are exceeded. We have our work cut out for us today and for as far into the future as we can see.

The overriding imperative of obtaining the greatest value possible for the dollars entrusted to us is not just an acquisition problem; it encompasses all facets of defense planning, as well as execution of acquisition programs and contracted services. We have to begin by understanding and controlling everything that drives cost or leads to waste. The budgeting/programming and requirements communities are as important to success as our planning and management and industry's execution of acquisition contracts. The quest for value includes an understanding of: (1) the constraints we must live within; (2) a willingness to prioritize our needs and accept less than we

might prefer; (3) an understanding of the relative value of the capabilities we could acquire; and (4) an activist approach to controlling costs while we deliver the needed capability. Only the last of these is solely an acquisition responsibility.

For the last 2 years, and as part of the original Better Buying Power initiative, we required that affordability caps be placed on programs entering the acquisition process. These caps are not the result of anticipated costs; they are the result of an analysis of anticipated budgets. Here is a simple example of what I mean: If we have to maintain a fleet of 100,000 trucks that we expect to last 20 years, then we will have to buy an average of 5,000 trucks per year. If we can only expect to have \$1 billion a year to spend on trucks, we must buy trucks that cost no more than \$200,000 each. That \$200,000 is our affordability cap. Affordability is not derived from cost; it dictates cost constraints that we have to live within. The source of the type of analysis illustrated here is generally not the acquisition community; it comes primarily from force planners and programmers, working in collaboration with acquisition people. We have affordability caps on a number of programs now, both for production costs and sustainment costs. Our greatest challenge going forward will be to enforce those caps.

To achieve affordability caps, we will need a willingness to identify and trade off less important sources of cost. In other words, we will have to prioritize requirements, identify the costs associated with meeting those requirements, and drop or defer the capabilities that do not make the affordability cut. This is a simple formula, but one the department has been reluctant to act on in the past. Too often, our history has been one of starting programs with desirable but ambitious requirements, spending years and billions of dollars in development, and perhaps in low rate production, and then finally realizing that our reach had exceeded our grasp. The most recent example of this is the Expeditionary Fighting Vehicle, which was canceled after many years in development because it was unaffordable. There are many others. The acquisition community and the requirements communities must work together to understand priorities and make these choices as early as possible. Delay in confronting difficult trade-offs will only lead to waste. If a 1 percent or 2 percent change in a performance goal will result in a 10 percent or 20 percent cost reduction, that trade should be considered as early as possible. Configuration Steering Boards are one mechanism to address requirements trade-offs, but they must meet often, be empowered, and have the data they need to make informed decisions. When the affordability of the full requirements for a new product that hasn't been developed yet is uncertain, industry must be given prioritized requirements so that its offerings can be optimized to meet the highest-priority user needs within the cost cap. Again, this takes close cooperation between communities and the willingness on the part of the requirements community to articulate priorities and to take into consideration the costs of meeting less essential requirements.

One situation I have seen on occasion in the last few years, and one I expect we will see more in the future, is the case in which "best value" has to be clearly defined. Often in these cases there is a competition between companies offering dissimilar capability levels based on existing products that may be modified to meet a need. The Air Force tanker program is an example of this: Both offerings were based on commercial aircraft and both could meet the basic requirements, but they also had differing capabilities with disparate military utility as well. In situations like this, the onus is on us, primarily on the user, to determine the value to the government of the different levels of capability and to apply that understanding objectively in the source selection process. Defining the value of a capability to the customer (what the customer is willing to pay for something) has nothing to do with the cost of the capability. Read that last sentence again—it is very important. In the KC-46 tanker situation, the Air Force determined that it was only willing to pay up to 1 percent more for the extra features that might be offered. Again, this had nothing to do with what those features cost. The bottom line is that, in the austere times we can expect going forward, we will need to understand how much we are willing to pay in total (the affordability cap) and how much of a premium we are willing to pay for additional capability beyond the threshold requirement. We will also have to communicate these parameters clearly to industry.

If we have constrained our appetites to what we can afford and to what we consider best value, now we have to execute more effectively than we have in the past. Historically, we have overrun development programs in the high 20 percent range, and we have overrun early production lots by almost 10 percent. This has to stop. It will not stop because of any one thing we do or any one set of policies. If controlling acquisition costs were easy, we would have done it decades ago.

Soon I will be publishing the next round of Better Buying Power initiatives (BBP 2.0), perhaps by the time this article goes to press. However, the central idea of Better Buying Power is not the list of specific management practices or policies we are currently emphasizing. The central idea is that we must all continuously look for ways to improve how we do business and the outcomes we achieve. We have to understand our costs; we have to look for opportunities to reduce them; and we have to attack unnecessary costs as the enemy of the department that they are. The whole idea of "should cost" management approaches and goals reflects this concept. So too do the various policy, management, and contracting initiatives we are pursuing under the Better Buying Power rubric and throughout everything we do.

We should not be content with staying within our budgets. It is not our job to spend the budget. It is our job to provide our warfighters with the greatest value we can for every penny of the money the taxpayers provide to us. If we keep this always firmly in mind, we will successfully meet the challenges we face. 