

# Improving **Competition**

## Reforming the Requirements Process

Roy Wood, Ph.D.



**T**ypical acquisition reform efforts have been focused in the margins, achieving marginal results. The evidence of decades of acquisition reform indicates that the marginal reforms typically taken are not making the fundamental changes needed by the Department of Defense (DoD). Legislative changes made since 2009 and several years of Better Buying Power refinements have incrementally improved acquisition practice, but many would argue that more change is needed.

**Wood** is the Acting Vice President of the Defense Acquisition University and former Principal Assistant Deputy Under Secretary of Defense. He is a retired naval officer and acquisition professional.

**Real competition is the single most powerful tool available to the Department to drive productivity.**

—Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics' Better Buying Power Web portal.

[http://www.acq.osd.mil/fo/docs/USD\\_ATL\\_Guidance\\_Memo\\_September\\_14\\_2010\\_FINAL.PDF](http://www.acq.osd.mil/fo/docs/USD_ATL_Guidance_Memo_September_14_2010_FINAL.PDF)



## **Losing a single large procurement for ships or aircraft could force a company out of the business, leaving the government with a single monopolistic provider in a significant sector.**

The simple, but revolutionary reform idea presented here is based on the author's research for the paper and presentation titled "Three 'Big Ideas' for Reforming Acquisition," delivered to the 12th Annual Acquisition Research Symposium in Monterey, California, on May 13, 2015.

### **The Problem With Competition**

Full and open competition is the Holy Grail of defense acquisitions. Competition is believed to lower costs to the customers, incentivize productivity and efficiency, and spur innovation among competitors. To win a competitive contract, a defense company must provide a responsive proposal for a product or system at an affordable price that meets the military requirement.

To position itself to win a competitive procurement, a company must continually assess its capability to produce technical and innovative solutions to meet government needs while keeping its cost structures lean and competitive to produce these goods at more attractive prices than its competitors. Again and again, the government has seen evidence that competition encourages this behavior in the defense industry and has gone to great lengths to sustain a viable industrial base where competition can flourish. In short, competition is good, and more is better.

Yet, since the mid-1990s, the defense industrial base has shrunk and consolidated to an unprecedented level. With fewer businesses in the industry, it has become increasingly hard for government to encourage fierce head-to-head competition for many of its products and systems. This has been exacerbated by the reduction in new program starts, with the result that losing a single large procurement for ships or aircraft could force a company out of the business, leaving the government with a single monopolistic provider in a significant sector. Under these conditions, government source selections must be concerned with dueling priorities of sustaining the industrial base while getting the best deal.

In an effort to mitigate the situation, government buyers have sometimes attempted to create pseudo-competitive solicitations among the prime contractors or find ways to encourage competition at the subcontractor level. Workarounds, like dual-sourcing, split buys and leader-follower procurements have propped up the industrial base, but sub-optimized some of the cost benefits of real competition among the primes.

Encouraging competition at the subcontractor level has been more difficult. Privity of contract has deterred direct government intervention and influence on subcontractor selection and behavior. Another approach is sometimes used where the government contracts directly with lower-tier vendors and provides subsystems as government furnished equipment (GFE). Many government organizations are hesitant to use this GFE strategy because it risks placing the government in the proxy role of system integrator.

Given the challenges that a shrinking industrial base poses to competition, and the limited ability of government to engender competition among subcontractors, options to maintain a cost-competitive environment seem extremely limited. If competition at and below the primes is less an option then, what about competition above the prime?

### **Competing the Requirement**

In theory, when capability gaps are identified, a full range of potential solutions is analyzed through a rigorous Analysis of Alternatives (AoA or AOA) process. Unfortunately, Service-centric solutions often emerge from the process, sometimes cutting off more innovative solutions. The Government Accountability Office noted in 2009 that "while AOAs are supposed to provide a reliable and objective assessment of viable weapon solutions, we found that Service sponsors sometimes identify a preferred solution or a narrow range of solutions early on, before an AOA is conducted."

A more robust and objective process might be to "compete" Initial Capabilities Documents (ICDs) among the Services and let each of the "bidders" conduct its own competing AoA to provide the capability. Rather than have only the predictable replacement of an Air Force bomber capability with another bomber, for example, perhaps more novel and affordable solutions would emerge from the Navy or the Army.

Competitive AoAs of this sort would become more rigorous, with both technical solutions and cost estimates coming under greater cross-Service scrutiny. The winning AoA, as judged by the Combatant Command and Joint Requirements Oversight Council (JROC), would then be "awarded" to the Service to manage through the conventional acquisition process. Armed with a more thoroughly scrutinized and complete AoA, the government would be better equipped

## **With increased incentive for one Service to call the bluff of another, overestimated claims of performance or underestimated cost estimates would not go unchallenged.**



to negotiate with industry for a capability the joint forces require and have a much better understanding of the cost of such a system.

Adding this extra layer of competition could help address a number of current shortfalls and issues. First, it would force the Combatant Commanders and JROC to write ICDs that are focused on warfighting capabilities rather than tailored to telegraphing a proposed Service-centric solution.

For example, a generically written capability for destroying targets at long ranges could be accomplished with manned or unmanned bombers; cruise or ballistic missiles launched from aircraft, ships, submarines or land sites; rocket-assisted shipboard or ground artillery; or potentially other more innovative solutions. One can imagine the Navy and Air Force going head-to-head with aircraft and missile alternatives and the Army and Navy competing on missiles or artillery and all of the solutions competing on affordability.

Second, creating an environment of Service competition for real resources would incentivize each of the Services to ask hard questions about solutions the other Services put forward and to be better prepared to answer questions about their own proposals. This would force—and enforce—a cross-Service competitive rigor that does not exist today. With increased incentive for one Service to call the bluff of another, overestimated claims of performance or underestimated cost estimates would not go unchallenged.

### **Advantages of Internal Competition**

In “Strategies for Managing Internal Competition,” J. Birkinshaw points out three advantages to internal competition: first, it increases flexibility; second, it challenges the status quo; and third, it motivates greater effort. Each of these three advantages would accrue to the DoD through use of inter-Service competition.

Flexibility is critical at this time of rapid changes in potential threats as well as opportunities presented by new technologies. As militaries are wont to assume that the next war will be like the last one, it is critical to create an environment that produces a more flexible and responsive military. Competing requirements at the Service level would encourage innovation and flexibility and prevent the DoD from being stuck with proposals for the usual stuff from the usual players.

Similar to the first point, creating a competition among Services would help break the status quo. The Services are quite comfortable in their mission stovepipes, each continuing to receive about an equal 30 percent of the annual defense budget. Large organizations can become victims of their success. The inertia can stifle innovation and crush new ideas that seek to violate the way things have always been done. Indeed, most new systems are simply incremental improvements over previous ones, becoming one-for-one mission replacements of aircraft carriers, bombers and ground vehicles.

In 2004, the Joint Defense Capabilities Study noted that “Alternative ways to provide ... capability are not adequately considered—especially if the alternative solutions are resident in a different Service or Defense Agency.” Instilling competition across the Services would challenge the status quo in ways not seen before.

The third point is that competition motivates greater effort. In an internally competitive environment, Services could be expected to be more aggressive, innovative and forward-leaning when faced with a direct threat to budgets and resources. One might imagine, for example, that a more thorough and lively discussion of the mix of sealift versus airlift capability would be brought forward by the Navy and Air Force if the results could change the resource and mission mix of each Service. Similarly, each of the Services might scrutinize quite differently the output of their various laboratories and warfare centers if they were forced to compete with each other on superior technology and innovation.

### **What Now?**

The idea of internal competition above the prime contractor level is an attractive option to offset the difficulties of controlling costs through competition in a shrinking industrial base. Competing requirements among Services could help inspire innovation and break the status quo. It would reduce costs by allowing the warfighters to select the best-value solution to meet the need, not simply be tethered to a single Service’s traditional alternative. Even with these potential benefits, the idea of competing requirements undoubtedly will meet resistance from those who seek to protect the status quo. The question is: Are we ready for real acquisition reform? 

The author can be contacted at [roy.wood@dau.mil](mailto:roy.wood@dau.mil).