Center for Strategic and International Studies (CSIS)

Better Buying Power Initiative 2.0

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DAVID BERTEAU: On behalf of Dr. John Hamre, the president and CEO of the Center for Strategic and International Studies, I want to welcome you this morning to CSIS. He extends his regrets that he can't be here to introduce you and kick it off himself. I also want to welcome our viewers on the Web. We have gradually begun to move into the 21st century here at CSIS; we now have far more webcast viewers than we have in-person viewers. I think that's a testament to the traffic and parking in downtown Washington – (laughter) – as much as it is the attraction of anything else. I would like to remind you to silence your electronic devices – obviously, another advantage of watching on the Web is you don't have to do that. I have a couple here.

I also want to give you one, sort of, detailed description of administrative – how we're going to handle questions and answers at the end. We have our standard procedure where, if you're in the room, you raise your hand; one of the staff will bring you a microphone, you'll say who you are and who you're affiliated with and you'll ask your question. Hopefully it will actually be a question rather than a speech.

But we have also begun to recognize that not everybody wants to stand up and be caught on camera saying who they are and where they're from when they ask a question. So we have a second option. We have index cards – hopefully you had the opportunity to collect some. You're welcome to write your questions down on the index cards at any point during the morning, and you can also hold your hand up if you want another index card. You raise the card up when you're done, and the staff will come around and collect it for you. And we have a group of experts – Jon Etherton and Bill Greenwalt will help me go through these questions and make sense out of them so that, when the time comes, it will look like Bill and Jon are asking all the questions, but what they'll actually be doing is asking the questions that come in from elsewhere. In addition, you can also email your questions in, if you're watching on the Web, to dberteau – D-B-E-R-T-E-A-U – @csis.org. And we get some of our best questions that way.

When you – when you come to Washington, as I did as a young man, sort of educated in the theory and practice of government, you might have the idea, as I did, that there are giants among us who are shaping the destiny of civilization and helping direct the affairs of the nation and preserve the well-being of humanity. And then you discover, of course, that many of those who look from afar to be giants are actually men and women with feet of clay – human as the rest of us. We're reminded of that every day, obviously.

Every now and then, though, we're blessed to be in the orbit of true giants. One such blessing for me was serving as executive secretary of the President's Blue Ribbon Commission on Defense Management, also known as the Packard Commission. I have with me still the report from that Packard Commission – a whole series of reports that were issued; the interim report in early 1986 – and among other recommendations urged strongly not only by David Packard but by the entire commission, especially Dr. Bill Perry, who was the author of the acquisition pieces there, was the idea of creating in the Defense Department a strong undersecretary for acquisition. The Congress was so eager to implement that recommendation that they didn't even wait until the passage later that year of the Goldwater-Nichols Act. The undersecretary – the creation of the undersecretary was actually a provision that was added to the Military Retirement Reform Act of 1986. So the undersecretary was created; they couldn't even wait for Goldwater-Nichols to be passed.

And so, Frank, your job was actually created by the Military Retirement Reform Act, in case you – there's a backstory to that, though. The Packard Commission did not start out with the idea of creating such an undersecretary. At the time, in DOD, there was an undersecretary for research and engineering, the derivative of the old DDR&E, and a separate assistant secretary for acquisition and logistics. They spent a considerable amount of time arguing over who was responsible for what we now call Milestone B, right, because that's kind of the boundary between development and production. And this arguing actually weakened the role of oversight in DOD.

Packard himself did not initially like the idea of an undersecretary. He actually felt the deputy secretary should be the acquisition executive, where he could balance requirements and programs and resources and acquisition decisions. And of course, that's what he did when he was deputy secretary. Some of you know he wrote the first version of the famous acquisition directive, DOD directive 5000.1 – we actually called it "point" in those days; we didn't have dots.

Here's what happened at the commission, though, that helped change his mind. We had a closed-door hearing in the morning of November of 1985, and the secretary of the Navy, John Lehman at the time, appeared before the commission. Lehman, as many of you remember, was a pretty forceful Navy secretary, and he was the de facto acquisition executive for the Navy Department. His argument before the commission was that when someone like him, who came up with powerful new ideas like promoting or requiring the use the fixed-price development contracts, or mandating that contractors pay for special tooling and test equipment, there should be a strong, central acquisition executive in the Office of the Secretary of Defense to force the other services to fall in line with the same good ideas.

That afternoon, in a separate closed-door meeting, the commission had the – what was known as the Joint Logistics Commanders, a series of four-star generals and admirals in Army Materiel Command, then-Air Force Systems Command and Air Force Logistics Command – two separate commands – the remnants of the Navy Material Command as well as the head or the director of Defense Logistics Agency – more than 20 stars sitting at the table, with a united message. They argued for a strong, central acquisition executive in OSD because they felt that someone like John Lehman came along with horrible ideas like promoting the use of fixed-price development contracts or requiring contractors to pay for special tooling and test equipment, there should be a strong central acquisition executive in OSD to make him stop. (Laughter.) So depending on your perspective, both of these goals – promoting good ideas and stopping bad ones – had been part of the fabric of acquisition management in DOD for the past 26 years.

I've had the incredible privilege of working with or for every person who has held that job since it was created – Dick Godwin, Bob Costello, John Betti, Don Yockey, John Deutch, Paul Kaminski, Jacques Gansler, Pete Aldridge, Mike Wynne, Ken Krieg, John Young, Ash Carter and now, our featured speaker this morning, The Honorable Frank Kendall. From my perspective, none of these fine gentlemen have brought to this job a better set of skills, expertise, background, dedication and understanding than Secretary Kendall.

He's been principal deputy for three years, and since his confirmation earlier this year he brings a rare blend of focus and breadth to this position. He is data-driven; he has Deming's sign outside his door: "In God we trust; all others bring data." Frank has only one speed as far as I know. He has no modulator switch. He is driven to take full advantage of the historic opportunity that we have today to refine and improve defense acquisition in a time when we most need it to be both effective and efficient. We're delighted to have him here this morning to tell us how he intends to do that with his updated initiative, "Better Buying Power 2.0."

Please join me in welcoming the undersecretary of defense for acquisition, technology and logistics, the Honorable Frank Kendall. (Applause.)

FRANK KENDALL: I was going to make a remark about how, with all the current events, I've got a group of people here who gets up 8:00 in the morning to hear about defense acquisition policy – yeah. (Laughter.) But if you get to hear David talk, it's worth it to come in. I – that was – I – we could just sit here and let him tell war stories; I think it would be much more amusing then the things I'm going to go over.

David and I share a lot of that history. I wasn't involved with the Packard Commission, but I came to the Pentagon after having been out in the field doing real work in 1986, about the time that the undersecretary for acquisition position was created. And I actually worked for the last undersecretary for research and engineering. And that list of people you mentioned, there are a lot of very, very good people in there who have all struggled, like I have, and will continue to improve the acquisition system and its performance.

I want to mention a few members of my team who are here with me today. What you're going to hear about is kind of a team effort; we've been working on this for a long time. It's all about continuous improvement and trying to find better practices, best practices, and institute them and learn from, you know, our experience, you know? Find out what the good ideas and the bad ideas are. Sometimes, things that sound like good ideas don't turn out that way.

So with me, I've got – just kind of go down the line, here – I've got Sean Stackley, from – assistant secretary of the Navy; Katrina McFarland, assistant secretary for acquisition at OSD; Bill Phillips is here for the Army – Heidi Shyu couldn't be here today, she had a family emergency and had to make a sudden trip to Taiwan, but Bill's here in her stead; and C.R. Davis, who's here for the Air Force. And Brett Lambert is hiding over in the corner over there, deputy assistant secretary for industrial policy.

What I'm going to do is go through a few slides. I don't usually use slides, but I think in this case it's probably the right way to do it, because I got a long list of things to talk about and it's easier to put that in front of you and go through it. What – you'll all remember, I assume, that two years ago Dr. Carter and I rolled out Better Buying Power set of initiatives. And there were 23 initiatives on the list, and we've been working for the last couple of years to implement all those initiatives.
And it occurred to me a couple of months ago that we really had gotten to a point where we had a – we'd learned a lot from our experience, we'd identified a lot of new ideas, and it was kind of a good time to kind of hit the reset button, if you will, and refresh us with a new round of initiatives to focus on. And we're continuing a lot of the things we already had, but we're going to put a few new ones on the table that have come up in this.

So the history is, of course, that in June, 2010, we announced the overall Better Buying Power Initiative. It was part of Secretary Gates' efficiency improvement in the Pentagon effort. Dr. Carter and I looked at our portfolio and, of the $700 billion, roughly, that the Department spends, we spend about 400 billion (dollars). So that's a pretty big hunk of the money. And therefore we ought to be, you know, doing our share, obviously, to try to improve efficiency.

So we came up with the first 23, put it out initially as a draft and then worked over the summer to finalize it, published a memorandum to implement some – the final 23 in September of 2010, built a group called the Business Senior Integration Group, which is a group that I chair now that has essentially been responsible for the implementation and the monitoring and also for the search for additional ideas and also to understand what has worked and what hasn't. And we've continued that for the last two years. And out of that work has come the list that you're going to see today, some of the new direction that we're going to have.

There's a mixed bag in the first 23. Some of them were very successful and we're going to continue to emphasize them. Some of them are not finished yet; we've got more work to do. Others we're not emphasizing so much. And some we're just continuing as sort of standard practice. At the back of the handout that I think you have, there's a list of the original 23 which are in the backup material that tells you sort of what happened to them, in case you're curious about those. The fact that something isn't on the new list doesn't mean that we've forgotten about it or aren't doing it.

The initiatives that we're going to talk about today, called 2.0. The list has grown. You know, I work in bureaucracy, so things then to grow, right? It's grown partly because acquisition is so large in scale and scope and complex. You know, there are many, many different facets of acquisition that we have to deal with. And there are possibilities of doing it wrong in every single one of them. There are possibilities of getting it right in every single one of them.

There is an awful lot to this business. It's very large. It's very complicated. It covers the entire lifecycle of our products. It covers all the different types of services that we buy from contractors and our best practices for doing that. So there's a lot to this. And if I were to try to list every single thing we're doing in acquisition across the board, and that all the people who are here are doing, it would be hundreds of things, OK? There are so many opportunities to get it right or to get it wrong.

So what we're going to do is to highlight some. And I would anticipate that – now that the election is over, I think I can anticipate this – that I'll be back in a couple years with 3.0 and a couple years after that 4.0. You know, this is all about continuous improvement. It's about finding better ways to do business across the board continuously, and working for ways to essentially save money and get more value for the taxpayers for the resources that we have.

OK, the new list, the 2.0, has added a category and slightly shuffled the name, just a little – thanks, David – just a little bit. And I'll go through these in detail. The one that's added, I'm going to point out though at the bottom there, is the professionalism of the acquisition work force. I don't think there's anything more important, frankly, to our outcomes than the professionalism of our work force. The people who are designated as part of the acquisition work force constitute about 150,000 people in the Department of Defense. That's a lot of people.

And you know, I sit at – you know, at OSD with this job that David helped create, and I make a few decisions about our major large programs as they come by me for major investment decisions. But all the day-to-day work that's being done out there is being done by thousands, literally tens of thousands of acquisition professionals. And their capacity to do their work and their professionalism really drives their outcomes more than anything else. So I want to highlight that.

And I thought it was worthwhile – the rest of the things up there are basically things we had last time, two years ago, or they're variations on that. But I felt strongly that highlighting the importance of our people and developing them and making them stronger and more capable of doing a better job is really number one in terms of my priorities.

OK, I want to go to the next one. OK, here it is. I don't – that's an eye chart, I'm sure, but you can follow along with the handout. And we'll just walk through – I'm going to hit the highlights and then leave time for questions. The – I'll go through the major categories and I'll hit some of the major ones. I won't have time to go through every single one, I don't think, but I'll give you a sense of what we're about with this round of Better Buying Power.

OK, the first category is on achieving affordable programs. OK, it – this is not new. This was in a different format in the earlier version. And we've been instituting this, OK? We've been doing this for more than two years, actually. We started doing this about two and a half years ago, when I came back into the department.

The idea here is that we put affordability caps on our programs. And we're doing it for production costs – unit production costs; we're doing it for sustainment cost. And essentially – which are the two big drivers, by the way, of cost. The development cost is a relatively small fraction of the cost of most of our products.

So the idea was that out the outset we would make an estimate of how much we could afford to pay for a product we were trying acquire. And we would limit that cost in that program to that number – those numbers. Now, this is not about what it costs to do something. It's not about the requirement you'd like to have. It's about how much money you expect to have in the future to pay for the product, to put it into your force structure.

And if you take a look at, for example, the 30 year shipbuilding plan for the Navy or the tac air plan, you know, we look out long term, the lifecycle of the product, and we make estimates about what our future budget are likely to be for a portfolio of products. And a given product – let me pick Ground Combat Vehicle for the Army. Lives in a family of products called ground tactical vehicles for the Army.

And we can expect to have a certain level of funding – we're not going to be perfect about this. Defense budgets go up and down quite a bit. But we can get a pretty rough estimate that's reasonable of what we can expect to have for that portfolio. And there are a certain number of products in that portfolio. They all have to be replaced at a certain period of time in their lives. And we can use that to very quickly develop an estimate of what kind of a cost we can afford to pay for any replacement product that goes into that portfolio. So that's the source of that, similarly for sustainment.

So we've been doing that for about two years now. The acquisition decision memorandums that I sign generally contain an affordability cap, both for production and for sustainment. So now the new thing on this list is the idea of enforcing this. The way you enforce this, the way we're going to enforce this, is by making requirements tradeoffs to stay within those affordability caps. And that's sort of a new world for us, OK, it is not something the department has traditionally done.

What we have traditionally done is start programs that we ultimately couldn't afford, spend billions of dollars on them and then cancel them. And I'm going to try to avoid that. I consider that to be a huge waste. You know, it varies from service to service, but the better services waste about 10 percent of their R&D money for major programs on programs that are cancelled before they ever go to rate production.

In some of the worst cases, it's gotten as high as 20 (percent) or even 40 percent of the – of the service's budget for major acquisition programs. So we got to stop that. That's a huge source of waste in the department, and by having affordable programs from the outset and then enforcing those caps. And I think the hard part is going to be enforcing them because people will come in and they'll say, well, I can squeeze it in; I'll find a way. So we're just going to have to be disciplined going forward and force requirements tradeoffs in order to stay within those caps.

OK, the next category up there is a – is a number of things designed to control costs throughout the product lifecycle. You know, all of these in one way or another are about controlling costs. But these are specifically focused on that. One thing that we've kept on the list that is working, I think, fairly well – I think quite well now and has started to become a part of how we do business in the department is the idea of "should-cost."

OK, "should-cost" is something we started two years ago, but it's, I think, as effective as anything we can do to control our cost and to get people to think much more consciously about the costs and whether they're really getting value for their money or not, and where they can attack their elements of their cost and drive them down. So the idea here is pretty simple. It's that our managers have to establish a "should-cost."

You know, we will budget to the independent cost estimates that we use, because that's our historical experience. But we're asking our managers to not simply accept that but to try to do better than that and to go find ways within the cost structure for whatever they're doing to reduce cost. And that's what the "should-cost" is. It's essentially the target that our managers set for themselves to try to drive their cost down. It's not just a number they make up. It's something they do through analysis of all the different elements of costs.

It's used in negotiations with industry sometimes, when industry comes in and bids to our budget often. You know, you can sit down with them and go through and attack all the different elements of their cost based on your own analysis. It's a powerful tool and it's become much broadly – more broadly used in the department over the last two years continuously. And I think – this is one that I think will have a lasting impact and is getting pretty well institutionalized. We want to continue to hammer on it as an important initiative.

Redundancy within the war fighter portfolio is one I won't say much about. It's pretty obvious what that is. We want to continue that. We think there are more opportunities there. We've done a little bit about that under Better Buying Power 1.0 but we'll continue it. The next one is something that's new that's a work in progress. And I'll – I've got three or four things that I'm doing, this is – Better Buying Power is one of them, a new 5000 dot or point two, David, is another one of them.

But a third one is starting to measure our own performance. And there's a long history at the department of essentially cycles of conventional wisdom, of intuitive ideas – you mentioned a couple – where people will come in – and the pattern is something like this: A new undersecretary or assistant secretary for one of the services will come in, and he'll have – he'll look around and he'll see things aren't going as well as they might be. He's having overruns and cost slips, and he'll put some policies in place to try to affect that. And long before those policies can take effect or have a result, he'll leave, he or she will leave. And then somebody else will come in, and they'll have their own set of ideas, and they'll look around, do exactly the same thing. So we go through cycles, and we try different ideas in cycles.

You know, the idea here is to start to actually measure how these policies actually affect the outcomes. It's interesting when you look at the data that the performance of the acquisition system is remarkably constant. You know, if you look at our major development programs, they tend to overrun by in the high 20 percent on average. That's remarkably constant. If you look at our early production programs, they tend to overrun by 7 (percent), 8 (percent), 9 percent on average, remarkably constant. There's a little bit of improvement that shows up once we started to use independent cost estimates as our budget basis instead of, you know, arguing about service cost positions versus independent cost estimates, which is – when Dave and I were in the Pentagon earlier, it was what we used to do. So that's made a very marginal improvement.

It's interesting that, you know, despite all of our attempts at acquisition reform, we have not really moved the needle in any substantial way. Well, the idea here is to start measuring the implications of our things, so we can identify what really works and what doesn't. So you know, that's the idea.

We'll be publishing a report sometime after the first of the year on the performance of the acquisition system. And we're going to get at both program performance and institutional performance within and out of government. So basically, we'll start to actually measure outcomes. And I don't think that this is necessarily going to benefit me. The things that I'm going to do now will just start to take effect over the next three or four years. But hopefully, the person who follows me will be able to look at the data – goes back to that sign outside my door – and from the data, conclude what's working and what isn't.

This isn't easy. It's hard to correlate cause and effect. There's so many different factors that affect programs. But I think we can do this. We can make the attempt, and I think we'll learn a lot from the experience. I've already learned a lot from it. We've been collecting data over the last couple of years, and I think there'll be a lot of interesting things that you'll see when we put out our first report.

We'll look at industry as well. I mentioned institutions. We look at government buying institutions – NAVSEA, NAVAIR, TACOM, yeah – ASE – we'll look at different corporations. And we'll see – are there differences in outcomes, depending on where you look? And if there are systemic differences, then we'll start to look for best practices. We'll try to find the reasons why some institutions are doing better than others.

The next one is about the strong partnership that I kind of alluded to under affordability. It's the idea of requirements tradeoffs, and a strong partnership between the acquisitions community and the requirements community. This is longstanding kind of bête noire of mine. This is something that I think has been a constant problem for the department, is the idea that people write down requirements, hand them over to the acquisitions community, and say, OK, get this for me. I don't care what it costs or how hard it is to do, just do it.

You know, I have a couple of requirements for any program that comes through. One is that the program be affordable, which we already talked about. The other is that it be technically feasible and executable. And both of those demand realistic requirements. But as we get into trying to control cost, we're forced to do tradeoffs on requirements, particularly in the earlier stages of development. And for that, you have to have a strong partnership, a strong, continuing partnership, not just points in time at which you exchange information. So that's the idea there, and I think it's so important that we just need to continue to emphasize that as we go forward. There are things in place like configuration steering boards that go partway there, but I think we can do better.

I'm now attending the Joint Requirement Oversight Committee meetings routinely; either I go or somebody from my staff goes, and the same sort of things, I know, in the services some of the people here are building stronger partnerships within their services as well. I think that's essential to controlling cost and success.

The next one is an idea that came to me recently. It's on defense exportability features. We got a little bit of help from the Congress here – we got a pilot program. But the idea is that – the realization that I came to was that most of our – the people we compete with for foreign sales at the end of the day – various companies around the world and various governments around the world – design their products from the beginning with the idea that they're going to be exported, that they're going to be sold outside their own country. And we don't do that. Historically, what we do is we design products for ourselves – you know, cooperative programs were an exception – but we design products for ourselves and after we have done that, we then think about foreign sales. Usually, industry thinks about the foreign sales, and thinks about how to – and comes in and asks permission to sell, and then we worry about how to modify the product so that we can sell it.

The idea here is to do that up front, so that when we design a product up front, we take that into account. And in particular, in the types of trying fiscal times that we're having right now, industry is looking for foreign sales as a way to supplement, you know, their income from U.S. sales, and we want to be assisting them in that. So this idea is that we start doing that early.

We got a pilot program that Congress authorized to do that. We've got about three programs that we're looking at right now, and we'll be expanding on that and trying to find ways. I think there's some interesting possible business deals in here that are win-wins for the government and for industry, and where we can share cost and share rewards. Haven't thought through exactly how to do that yet, so that's a – that's a work in progress, but I think there's more that can be done there, and it'll pay dividend, and it's a win-win for everybody.

OK, the next set of things is on productivity, innovation and productivity. The first one is another one that I think is a ground where we can have a lot of improvement as well, and that is the whole area of incentives. Now, a lot of incentives are baked into the contract type that we provide, you know, cost plus or fixed price. Fixed price provides a huge incentive to industry to cut costs, because they get to keep the savings. You know, cost plus is a little different, there you have to bake the incentives into the fees, and you can also put the incentives into the follow-on work. If you're doing development of a program that you're going to get into production, you can tie the incentives to what the government wants in the production program.

I think we can be more creative there. We have – we have had a history, in my experience, of kind of spreading incentives out over a development program, for example, based on schedule performance or other things we're interested in, in a way which has not really helped us. So we have to think through much more carefully, what do we really want? And is the incentive we're going to provide actually going to get it for us? Is it going to change the behavior of industry, or are we really just putting some money on the table that really isn't going to get us anything in return?

You know, it's very easy to make incentives easy to get so that they really don't change behavior at all, but the industry gets them and gets the money. You can make them impossible to get so that industry's not going to get them, no matter what they do, and so they're not very helpful to us in that. You've got to hit that sweet spot in the middle where you're going to change behaviors, and get more for your money than you would have otherwise. And the leverage has got to be appropriate for industry, and it's got to work for government, as well. So there's a lot more work, I think, to be done there, and a lot more thought that needs to go into how we provide incentive to industry. What we want at the end of the day is win-win business deals, where industry does better and we do better at the same time.

I ought to mention – I should mention this, because when we did 1.0, it came up as a concern from industry primarily – that Better Buying Power was about taking away people's profits and cutting cost by cutting profit. And I'll say again – I've said it many times – nothing could be further from our minds, OK? What we want to do is reward good performance. You know, we're perfectly happy to pay high profits, but we want something for those high profits, OK? We want better performance; ultimately, we usually want lower cost. And so if you can tie those together, then that's a win-win. That's what we're after.

The next two kind of go together: appropriate contract types and fixed price incentives. The – we put out a Better Buying Power 1.0 guidance that people should increase the use of fixed-price incentive contracts. We were right about that. But Doctor Carter and I were both a little nervous that we might spark an overreaction. Our work force tends to sometimes want to kind of know what the school solution is, so they just do that and they don't have to make a decision. What we want – we still wanted people to think about the right type of contract type to use and to use whatever was appropriate for whatever they were doing. And we put a caveat in that bullet that I think often was ignored.

But basically, we're trying to just kind of back off from that a little bit. We want to say here, use the right type of contract. Think about what you're doing and what the right type of contract is. We have a wide range of contract types for good reasons, you know. The fixed-price incentive fee contracts are appropriate, and we think we should increase their use in early production in particular. That was a place where traditionally we would have gone to firm fixed price or maybe stayed with cost plus, and we could have used fixed price incentive fee.

I mentioned the numbers earlier about how much we overrun. You know, we – on the average, we overrun in early production to, you know, less than 10 percent. That's within the kind of window you can cover with an incentive fee. You know, we used 100 (percent), 120 percent in Better Buying Power 1.0. But that's the sort of window that would cover that, and give industry some incentive and also not put them at unreasonable risk. So the idea here is not to transfer all the risk in the world to industry, which is what fixed-price development did back in the day that David was talking about earlier. I lived that era, and what happened was we had programs like the A-12 is the classic example.

But there were a number of others that were on firm fixed-price development contracts, and when they got in trouble, which an awful lot of them did, we really had no flexibility to work our way out of the trouble. You know, industry was trapped in a situation where they had to perform or else, and they just had to keep paying or default on us, or put claims in against us and try to blame it on us, whatever was going wrong, or we could cancel the contract. Those aren't a good set of choices.

So often in development, cost plus is the right way to go. You can still put strong incentives on industry, you can still reward the kind of behavior that you want, and have penalties, if you will, for the kind of behavior you don't want. But fixed-price development is not something I'm particularly fond of.

We do have cases where it makes sense. Again, it's about using the right contract type. And I always give the example of the tanker as a good case where a fixed-price development was appropriate. Yeah, we had several things there, and I'll just go through my list real quickly. We had very firm requirements: We were not going to change and we have not changed the requirements for the tanker. We had technologies that were well in hand. We really understood the thing we were going to build and what it would take to build it.

We had people bidding who know how to do that kind of a job. You know, there was no question that the bidders that were going to bid on tanker know how to build airplanes and how to do modifications to airplanes. We knew that they had a – the resources corporately that if they got in trouble, they could continue to execute and finish the development program. And finally, they had a strong business case that would encourage them to do just that, to get the product out and get it into production. You have those five things, and fixed-price development makes sense. If you're missing some of them, then you have to think about it very carefully.

OK. The next one is about best value. Many of our competitions are best value. And what I've been discovering is that the department is not very good at defining value. We had an experience of – worked experience recently with the Air Force on a program where it took several iterations to sort of get this idea across. But the idea here is that how we as the customer value something is really not about the cost. It's about what we're willing to pay for something. And we often put out requests for a proposal that have threshold and objective levels of performance. And my experience, in the last couple of decades at least, has been that we default to the threshold because it's going to be cheaper to do the threshold than to do the objective. And so that's what we get. And the objective is certainly what we'd like to have, but nobody takes it very seriously.

OK, well, if the objective actually has value for us, we should articulate that value. How much value does it have? Will we pay an extra 10 percent? Would we pay twice as much? I had a very bad experience on a program in my – when I was in the corporate world, where I was trying to convince the government that our product, which had a slightly more expensive design, had an enormous benefit in performance. And we were not going to get any credit in the source selection for that additional performance. Well, the idea here is to define whether we actually care about additional performance or not and to put a value on it from the government's perspective.

You know, it – you know, we may not be willing to pay for anything more than the minimum performance. That may be it. There may be zero value for additional performance. On the other hand, there may be some value at least. And if industry can get within that range, they should be competitive. So that's the idea of that. We need to better define what value is. And this goes back to the requirements community and the resources community; it's not an acquisition thing. We're not the customer, at the end of the day. We're the people just doing the acquisition.

The next one – and there are several on here that come from industry or are a result of concerns that we've heard expressed by industry. Lowest price technically acceptable is a technique that basically has people bid where you're essentially saying what I just described: There's no value to the government for increased performance above a certain threshold. That's all we want. Just bid that; don't even worry about, you know, doing better than that. The concern is that we have defaulted to just the lowest-priced, period. And that's not really what we're after. So there – it's incumbent on the government to define "technically acceptable" in a way that's really appropriate and meaningful to us and so that industry can bid intelligently.

Now, some of this criticism or concern about this has been from companies who are incumbents who are worried that their expertise is not being given adequate consideration when they bid on something. So there's some self-serving nature to this. But it's also some validity to this. So we really need to do a better job of this. You know, I've been in – again, in my own experience, this time in government, I have seen cases where I was forced to take the lowest-cost bidder when I knew that that was a very inferior supplier to me and I would have gotten a much better value if I had been willing to pay a little bit more, set my bar a little bit higher. So the idea here is to define the bar in a way which is – which is really appropriate and gives us what we want.

Superior Supplier Program is one that we had on our list last time, and we didn't get it done. We – to be honest, we just kind of thrashed around with it for a long time and never quite got it implemented. We're going to go back and do the – try again. We think we really should be rewarding our better suppliers at least with the recognition that they're our better suppliers, and if possible with things that are more tangible – like, you know, reduced overhead, if you will; reduced oversight; maybe some reduced reporting requirements; you know, consideration – you know, it's a step up in some of your prior performance considerations when it goes into future source selections, that sort of thing. So we're – the Navy's leading an effort to do a pilot there for us, and hopefully that'll be out soon. And then we'll have the rest of the department kind of get on board after that. So we're going to continue on that one.

Performance-based logistics – we had – I've done some, I think, very sound studies – there's data on this one that shows that performance-based logistics, if implemented correctly, does save money for the department. So we've looked at about 10 cases where we've instituted PBL, performance-based logistics. In about eight of the 10, we got good results. In the two cases where we did not, it was because we didn't execute well. You know, we didn't manage it well; we didn't supervise the contractors; we didn't set the requirements appropriately; whatever. So the idea here is to increase the use of PBL but to make sure we do it effectively.

The next one is another one that's come from industry. It's also a concern expressed by a lot of our program managers. It's taking us too long to do audits. And audits are holding up awards of contracts; they're holding up closing out contracts. This is a common complaint from industry. We're working closely with the Defense Contract Audit Agency, which is part of the financial management side of the Pentagon – doesn't work directly for me. But Pat Fitzgerald, the head of the agency, has been working very closely with us. And we're working aggressively to drive down that backlog.

It used to take about nine months, when I first started out in this business, to award a competitive contract; now it takes about a year and a half. That's unacceptable to me. We've got to get that time down. That's way too long. You know, by the time we get money from the Congress and then get it on contract, we're burning up way, way too much time. You know, it's – in the world I grew up in, we were in a race technologically with the Soviet Union trying to field capabilities. And we've sort of got out of that kind of mode; I think we need to get back into it a little bit and develop more of a sense of urgency. And one of the places we can attack is this one.

I'm going to continue our effort to strengthen industry's IR&D and its utility to the government. You know, we started this one earlier as well. We have established an Innovation Marketplace; it's a website you can go to and get a better feel for what the government's already doing in its own internal R&D on the government side – our funded work. But it's also a place where industry – government people can understand what industry is doing. And so there'll be a better exchange of ideas.

This is mostly about exchange of information and communication. It's mostly about us understanding what industry is able to do and is doing so that we're aware of the types of things that are being done out there so we don't duplicate those investments. It's also so industry can be more aware of what the government needs – you know, what technologies we're interested in seeing advance and the opportunities for technology that might come out of industry. So the idea here is to go away from the kind of a – we went through a – we had a period of time until about 19 – you know, I think '93, when IR&D was very heavily regulated. Then we had a period of time where it was kind of ignored. So we're kind of coming back to the sweet spot. And we've made a lot of progress on that one, but we're going to continue it.

OK, the next one at the bottom of the page there is bureaucracy. Living in a bureaucracy, I've noticed, having – I left the Pentagon for 15 years and came back and noticed that the bureaucracy had grown quite a bit. We were doing a lot of things that I thought were better done by other parts of the chain of command – by the chain of command itself, actually. So we're trying to reduce – continue to reduce the frequency of the reviews at my level, push more down onto the services; [we] need to do the same sort of thing to remove bureaucracy within the services, which have their own very big bureaucracies as well; but overall to emphasize the chain of command.

You know, it's the Goldwater-Nichols chain from the acquisition executive to the program executive officer to the PM. You know, those are the people who are responsible and should be accountable and responsible for managing their programs. And everybody else is there to help, basically. I think that's the first tenet on Packard's list, actually, is that the OSD – and it applies within the services as well. The staff is there to help, not to tell you how to do it or say no to you. That's sort of a cultural change that we're trying to institute and we still have a ways to go on.

The next one is an invitation to industry to give us ideas. Now, there are – I've heard a lot of public comments from industry about places where we're imposing cost without much benefit. I'd love to hear more about that. And if there are things there that we can remove that don't do any damage, then that's great; we'd love to do it.

And cycle times – I mentioned that earlier – it's taking us too long to do things. I mentioned a couple of aspects of that. Time is money, particularly in development. And so what we need to do is figure out ways to shorten our cycle times. And that's true at the macro level for programs themselves that now take 10 or 15 years in many cases. It's also true at the micro level for individual decisions and processing staff work and paperwork and getting it done. So there are things all across the spectrum there where shortening cycle times can have benefits.

OK, competition – top of the list on the other column – huge believer that competition is the single biggest way to reduce cost. We can't have competition for a lot of things, but we can create competitive environments. So continuing to emphasize that – our managers have to come in with competition strategies as they bring programs forward; [they] have to plan how they're going to keep an element of competition in their programs. And there are a number of ways we can do that. Some of that is at a higher level than the program itself. If you're starting to work on the next generation beyond the one that's already there, you know, maybe the people that are working should be doing a little better job of getting their costs down, getting performance into the product that's already in there because there's a competitor coming.

Lots of ways to introduce competition. Open systems is one of them – open system architectures, modular designs. Those are only effective if you get the technical data right to implement them, and we have had some failures in that regard. So we can do better there; we'll continue to emphasize that.

Small business plays in a number of places here. I'm not going to dwell on that, but small business brings lower overhead cost in most cases, it brings a lot of fresh ideas, a lot of lean, hungry approaches to doing business that can really benefit the department, and we need to reach out to small business – source of innovation and a source of greater efficiencies. And also, obviously, a lot of competition can be had there.

The next one's an interesting one that came out of an observation I made about a year ago, I guess – a year and a half ago. We do the technology demonstration or technology development phase before we go into full-scale development for production, and the idea there is to reduce the risk – you know, develop the technology and reduce the risk before you commit to, you know, the very – much larger costs associated with development for production and production itself. And part of that is the idea of competitive prototype, and this something that John Young, one of my predecessors, instituted, and it's a very strong idea. I think it's in WSARA as well. So doing better prototypes is a way to have competition; it's a way to reduce risk at the same time.

But I had a program come through which was – we were asked to do a fixed-price development contract, and I was told that the risk was all out of the program because we had done competitive prototypes and because we were [at] technology readiness level 6, which is, you know, basically, you've demonstrated the technology in a relevant environment to the operational environment. And those are nice things to kind of check the box that you've done those two things, the competitive prototypes and TRL 6, but I asked the question, well, what did you actually do? What did you actually demonstrate? What technologies did you actually prove out, and how does that technology correlate to the design you're going to build in EMD, in full-scale development? And so I sat down with the engineers and I walked through the design – it was missile systems, and I walked through the design – there was no correlation between the design that had been flown in the competitor prototyping phase and the one that was going to be built in production – in EMD.

And I said, well, wait a minute, how do you – how did you get any risk out? You didn't – you didn't reduce the risk of the actual design. What you did was a proof of principle; you demonstrated that a missile can be built that will have this performance characteristic. You didn't tell me anything about the one you're actually going to build in terms of reducing the risk. And there are – the light went on, and the light was this: industry wasn't trying to reduce risk. What was industry trying to do?

MR. : Win.

MR. KENDALL: Yes, that's exactly right. Industry was trying to win, and we should realize that. You know, so I had a study done – I had former Deputy Director of DARPA who is a friend of mine come in and look at about a dozen programs, and we found that in more than two-thirds of the cases, that was exactly what was happening. Industry was basically doing a competitive prototype, they were doing a demonstration, but they were not removing the risk of the actual design, because why? Why would they – why would they take a chance on failure if they didn't have to – if we didn't insist that they do that? So basically the idea is that we on the government side really weren't doing our job. I expect industry to behave in a way which will benefit industry. That's what they're supposed to do – but we should have insisted that industry actually reduce the real risk of the product that they were going to build and show us how they were doing that as opposed to just doing a demonstration and checking a box for a TRL.

So that's the – that's what's behind that bullet, and I think it'll – we – I saw this in so many cases – a majority of the cases we looked at, actually – that we actually just have to be careful, and it gets back to the last set of bullets about professionalism of our work force. We have to understand, technically, real risk and how to manage real risk and not just somebody that checks the box and says, this is what you're supposed to do.

OK, the next one is the set of bullets on services. There are a number of things we can do on services; I've only got one major bullet on this, but it's more than half of the money we spend. It's also a place where we – I think there's great opportunities for efficiencies. So this continues that.

The first couple of things on the list we have done. They're just – there are – it's a note that they are done, and next to them are largely a continuation of things we had in Better Buying Power 1.0, but we're going to keep the emphasis up on this – we're going to go up another level of detail – or another layer of indenture, if you will, in terms of how we're managing service contracts. If you look at the six or so basic types of services, you know, maintenance, information technology, knowledge base services, facilities, et cetera, R&D, you know, they all have their own characteristics. They all have their own best practices, and we just need to drill down deeper and try to understand that and manage it.

There's a list – there's an item on there next to the bottom – second-to-last on this column – in this category on going outside the acquisition chain. An awful lot of our service contracting happens outside of the acquisition community, places like installations, where installation commanders actually have a number of contracts that they're administering, and they often aren't paying a whole lot of attention to them. You know, this is about getting the rest of the community who actually spends money but isn't really necessarily at the top levels paying attention to it to start to pay attention and to look at what they're getting in return for their money.

And the last one is a best practice we've identified – and some of the buying commands use this for service contract management – the – similar to the requirements review boards we have for – or whatever you want to call it – for products, but the idea here is that we examine carefully our product – our requirements for services continuously, and we have senior people engaged on that. Tripwires are the idea that if your costs are increasing in a certain area or you're having problems with the performance in a certain area of service that you – management starts to pay attention. So they're basically just management tools that are best practiced that we've identified – that we – in parts of the Department of Defense that we want to promulgate to the rest of the department.

OK, and the last one is the one I sort of started out talking about, which is the work force itself, and I think – I like to say that the most important legacy any of us can leave behind as managers is a stronger work force than the one we inherited, and that's my goal here, OK? The idea is that we strengthen the work force, particularly the key leaders. If we strengthen the key leaders, they'll strengthen everybody else. So the idea is to develop those people. We have a system called – for acquisition certification. So people get to be acquisition levels 1, 2, and 3. It's become sort of an, again, a check-the-box things, where people try to get it so they can put it on their resume, but what we're after here is real experience that really prepares you for the next layer of responsibility.

I mean, we've got some pilot programs we started to start to measure that and understand that and attract that for people, and I'm talking about not just program managers, but also chief engineers, contracting officers, lifecycle support managers – people that kind of span all the different aspects of acquisition. It's also true for major managers of large-scale services contracts as well. So the idea here is, you know, higher qualifications, higher standards, more professionalism, and people who have actually really gone out and done the things they need to do to develop themselves, shown their capacity to manage at a high level, get rewarded and get moved into the higher positions.

This is a long-term project; this is not something we can do overnight. It came to me a couple of years ago, I guess. I was thinking about the demographics of our work force, and what I saw is, in some cases, some weaknesses in our work force, and it occurred to me that – in industry, if I had needed a good program manager, I could go out and advertise for one and find one somewhere. In the government, I have to grow our program managers. They come from the career people who are basically career for their lives, they come from service people who are service people through their entire careers, and we have to grow those people ourselves. We can't just go out in the street and hire them. And if we go through a period where we're not paying attention to that, we are way behind the power curve and have a long way to go to catch up. So I think we need to emphasize that.

We also have a demographic issue with sort of a bath tub, where a lot of people in our work force are my age and they're going to be retiring before too, too long, and then we have a kind of a dip, and then we have a lot of younger people who haven't had a chance to gain that experience yet. So we need to pay close attention to that and try to transfer some of that knowledge that the senior people have to the more junior people.

The last bullet I'll mention is the cost-consciousness of the work force. It kind of brings you full circle. You know, the "should-cost" does this; I think it's an important element of this, just making people do that forces them to think about cost, but it's about changing our attitude toward spending the money. The money is almost just a number to a lot of people. It's – you know, it's a big number, in many cases, but we just think of it, kind of, as a number. It's real money. You know, it's dollars and cents that the taxpayers have actually paid into government to get a stronger Defense Department for, and we need to do the best we can at getting value for that money, and that starts with being aware that we're spending the money and what we're getting for it and not just accepting things. It gets at being aware of your costs, attacking your costs and trying to drive them down. It's just a continuous focus of attention across the work force.

In the times that we're in, I think it's going – it's austere now; I think it's going be more austere in all likelihood. We put together last year first a strategy and then a budget that I think – they're both very sound, but there's risk in there. We've got a lot of challenges to execute successfully. I lived in a hollow force once upon a time. I was an Army captain in Germany in the '70s, and we couldn't get parts to save our lives, so we were – we were hollow from a readiness perspective. Our budget has to be in balance. You can be hollow from a readiness perspective, you can be hollow from a training perspective, you can be hollow from a modernization perspective where you're not inserting technology into the force, and right now, there's a desire to hang onto force structure – there always is in the department – and we're going to have to work very hard to stay in balance. And those other things – the modernization piece, the recapitalization piece, the readiness piece, even the training piece – we've all got to get value for the money there, and there's a huge amount of work still to be done.

Now I'll close and take some questions, but basically, all of this is about continuous improvement. It's not about, you know, the new fad for management; it's not about the – you know, the bright new idea that's going to change everything. It's about attacking all the sources of inefficiency across the board, focusing on the ones you think have the highest payoff and learning as you go and continuous improvement, and that's the approach we're going to be taking for the next few years.

So, thank you, and I'll take a few questions. (Applause.)

MR. BERTEAU: All right. Let me remind you, we do have microphones. We'll call on folks in a minute. Raise your hand and they'll bring you a mic. I've gotten a number of questions from viewers on the web. You can email me at dberteau at CSIS.org. And we have a couple dozen cards that have been handed in, so we're not going to run out of questions for a few minutes here.

I'm going to take the host prerogative, though, and meld a couple together that came in from web viewers and – with one of my own. And it's kind of a two-part question. Your arrival with Dr. Carter in DOD just happened to parallel the passage of the Weapons System Acquisition Reform Act, which made a couple of pretty significant changes. Two of the ones that I'd like you to comment on, one was the raise to prominence of the independent cost estimate that comes out of the Cost Analysis and Program Evaluation office, CAPE, and a predisposition to approval of a program using that independent cost estimate as opposed to what we used to call the services estimate. And so my first question is, have you – how has your experience been with that? Have you gone with the service estimate? What criteria do you use to go any other direction?

The second piece of WSARA was the establishment of the Program Assessment and Root Cause Analyses office, PARCA. And you put a bear in charge of it who is relentless in his pursuit of this. He's done now quite a number of root cause analyses. How has that affected your decision making, and where would that be reflected in the update initiatives here, these root cause analyses?

MR. KENDALL: Great questions. WSARA's, I think, a very good law. It did – it did a lot of things we probably should have been doing anyway, if we weren't. So we kind of moved this in the right direction.

The CAPE estimate, I mentioned there'd be a budget to the independent cost estimate. We generally do. If they're within the error bound of the independent cost estimate 2 (percent) or 3 (percent) or 4 percent, 1 (percent) or 2 percent, we may go with the service cost position just for convenience. By and large, that's where we start, OK? That's what we budget to. You know, we try to manage to the "should-cost" numbers that I talked about, and those are usually at least a few percent below the independent cost estimate.

If the services can demonstrate through actual performance that they're doing better than the ICE, then they generally get to keep the difference. So that works out well for the service, OK? The services then have their own ways of applying those funds. Usually they'll stay in the program. Maybe you'll buy more quantity, if that's one of the possibilities, or you may add some features that you – if you're still in development, or it may go into another program that has a greater need or to a higher service priority, or in some cases, ultimately it may end up in a DOD-level priority, but that's going to be rare. Generally they stay with the service. That's working very well. We have a very good cooperative relationship with CAPE. They're very professional. And as the KEG, which is the predecessor to the current cost estimate analysis, which you and I worked with, David, was very professional, also.

So that – that's – and what – occasionally you'll get a difference of opinions, and basically what we'll try to do then is get everybody in the room and work through the root cause of those differences of opinions and try to understand what assumptions people are making that drive their estimates and see if we can reconcile them. So that's a healthy process. We end up a with better estimate for doing that. But that's working really quite well.

As far as PARCA is concerned, you know, a great director of PARCA, Gary Bliss, who's doing a fantastic job. He's been at it for a couple of years now. He's created the office just about the time I came back in. And he's reviewing programs.

We're learning a lot from that. I mentioned publishing something on performance. They'll be some information from PARCA's gathered from there.

And PARCA sends a report to the every Hill year. And it's very interesting. They've done – I think as of their last report, they've done about 13 programs. And they were finding, you know, what was causing the programs to have problems in a variety of things, you know, per execution, per management, per cost estimating – often per-cost estimating – rarely technology overreach. You know, one of the things that's traditionally been described to be a problem for programs is that we had requirements that were too ambitious and we didn't do enough to get risk out. That's not showing up in any of his results, with one or two exceptions, as a – as a root cause. So that's turning out to be valuable office. It's very much in line with, you know, my desire to use data. And Gary's a very analytical guy. He's got a good team, so that's working out well.

MR. BERTEAU: I will let you call on folks in the room.

MR. KENDALL: OK, right here in the middle, up front.

Q: Thanks. Steve Schooner from The George Washington University.

MR. KENDALL: (Inaudible.)

Q: First, I want to thank you for a greatly improved, far more sophisticated, nuanced road map. It is incredibly comforting to hear rhetoric on things like incentives, appropriate types of contracts, the work force value, market research, the DCAA backlog and even tradecraft in the services. So with that as a background –

MR. KENDALL: You could stop right there. That's good. (Laughter.)

Q: So my approach today is, I'll offer you two questions, and you can dodge one. How's that?

MR. KENDALL: All right.

Q: OK. So first, we know there is either some kind of fiscal cliff, sequestration or some kind of dramatic cuts coming. Do you anticipate some kind of guidance for the work force on, for example, whether it's appropriate to do partial terminations for convenience, deductive changes, or exactly, are there any limits on the parameters for how much volunteer or unpaid services or goods you'll accept from contractors?

The other question is, I was pleased to hear you talk about rethinking performance measurement. And I think many of us believe that the conventional metrics – price, schedule and the original specs – are not meaningful. Do you anticipate doing some research or at least experimenting with either value for money, or more importantly, customer satisfaction?

MR. KENDALL: (Inaudible.) Great questions. Let's see. Let me do the metrics. Let me do that one first, and then you'll have to remind me the first one.

Yeah, I wrestle with how to best measure our performance. It's not simple. And the problem is that you can – the easy thing, the obvious thing, and what you're going to see a lot in the report will publish in a couple of months – is about schedule slips and cost overruns. But if those are simply self-fulfilling realities, right, that we just didn't do a good job of estimating, we're not going to be able to reduce those. We're just going to be able to do better planning. That will help because that will get rid of some other inefficiencies in our budget. We won't have this unrealistic a budget.

Funding to the ICE is a good example, right? We're – that's, to some degree, I'm going to look better because I put more money in, but am I doing any better than I would have done otherwise? And that's – the – what I want to do is do better. I want to actually perform better. So that's why I'm kind of high on incentives. I think we need to – and there's only so much you can get out of incentives. Industry isn't trying to fail in general. Industry's doing its best out there to perform. It has a certain amount of talent that can move around and try to get jobs done, and it does that. We can incentivize industry. You know, I think if we incentive industry, it will – it can exert greater effort in the right direction, and so that's true. But there's a limit to how much you can get there. So we need to do better at that.

I – we need to do – it's a complicated question. I've got an analysis cell that lives in PARCA that reports to me, whose job for the last couple of years has been to do the kind of analysis you're talking about, to really get at what has an actual effect on the outcome. We're looking at things like – we're looking at major acquisition programs, because there's data on them. You can go back over 20 or 30 years and try to look at performance. You can look at contract types. You can look at incentive structures. It's awfully hard to sort out cause and effect in many cases, because there's so many factors, and oftentimes policies are not in place very long. You know, if we look at fixed price incentive, for example – we started doing that a couple years ago. It's going to take at least a couple more years of collecting data on that and the different facets of fixed price incentive. But then you've got to look deeper at how we're doing it. So it's not a simple problem.

You know, this is a complicated business, unfortunately, and it's very hard to get at root causes. And I kind of agree with you that some of the superficial metrics, I'll call them, that everybody focuses on, the cost overruns, the schedule slips, are not really going to be all that helpful in some cases in terms of determining root causes. What was your first question?

Q: Any guidance on how you're going to manage fiscal cliff, sequestration?

MR. KENDALL: Ah, yeah. First of all, important point to make is that we're not going to modify an awful lot of contracts. Most of the money we're talking about that will be affected by sequestration hasn't been put on contract yet. It's FY '13 money. And we usually don't obligate our money very quickly in the beginning of the year. So what's going to happen is that planned contracts will be – will have less money available then. In some cases, we just won't award those future contracts. So it's not about terminating or modifying the ones we have. There are some exceptions, OK? There are exceptions where we have multiyears, for example. In some case we have incrementally funded R&D contracts that run over multiple years, and in that case the level of effort will have to be changed.

Now, we're not planning on sequestration because we're planning on not having sequestration. The president said in the last debate that it wasn't going to happen. I think that's his clear intention. Secretary Panetta's been very vocal, Dr. Carter has been very vocal, I've been very vocal, all the service leadership has been very vocal: Nobody on the Hill wants it to happen. I think we're going to find a way to have it – to avoid it. Will there be large cuts independent of the sequestration? I don't know. I hope not. The budget that we put together last year and the strategy that we built first to – that we put the budget – built the budget around, I think, are very sound, and somebody's going to have to make some really tough decisions about capabilities, if we cut the budget substantially from where we've requested in FY '13. We don't know what's going to come out of the process there, but I think what I just said will be articulated very strongly by the secretary of defense as we go through that.

We will, at the end of the day, you know, figure out how to balance across the department at whatever level of funding we get and, you know, do the best we can to defend the country. We think we're at about the right place right now and think that cuts much below what we have requested would be dangerous, frankly.

There was a – there are some misunderstandings about sequestration. Let me say another couple of words about it. It's not a cliff that we fall off on the 2nd of January, even if it happens. It basically says we're going to have 10 percent, roughly, less money for this year, this fiscal year, and we have to figure out what to do with that.

We are very constrained by the law in terms of how we take the cuts. And there seems to be some uncertainty about whether we have to take the cuts essentially by line item, which would be the worst way to do it but would be zero flexibility on our part, or whether we could take it by budget account, which aggregates up, you know, substantially in some cases, in which case we would get to make some choices about within, let's just say, Air Force aircraft, right – you know, what programs we wanted to fund to what degree and whether we could do some things there.

We would work it out, OK? It isn't that hard a problem if we have to solve it. It would be very painful in terms of its impact; it would be devastating in terms of its impact. So we're – right now, we're in the mode of doing everything we can to avoid it because we absolutely are convinced that's the right answer.

Nobody ever intended sequestration to actually happen. You know, the whole idea was to force Congress to do some things it didn't want to do by the threat of sequestration so the – when Bill Lynn was the deputy secretary, he made a comment that the idea of sequestration was to make it so crazy nobody would let it happen, and they did a really good job. Well, let's hope they did a good enough job, you know. (Laughs.)

Next, Gene?

Q: Gene Porter, Institute for Defense Analyses. My compliments on eliminating redundancy within war fighter portfolios. Can I ask you sort of a two-part question about portfolio management? One, reducing redundancy – presumably you also mean reducing overlap, and I presume the goal is to get to the point where all of the acquisition portfolios can be added up to get to the total acquisition budget.

MR. KENDALL: Essentially.

Q: And –

MR. KENDALL: But the idea there is redundancy in terms of similar product lines –

Q: Yeah.

MR. KENDALL: – and also, in some cases, things below the product level, where you can have common components and common, you know, subsystems, for example.

Q: Second part of that is the relationship between acquisition's definition of portfolios and CAPE's programming portfolios, where, in fact, over the next 30 years, the mix of forces may change. We may go to more unmanned aircraft or more unmanned ground vehicles, and the current sort of steady-state definition of – will ideally change over time as new technologies and new threats and what have you – can you talk about how your portfolios are meshing into the DOD programming process?

MR. KENDALL: Most of them are logical aggregations, and we leave it to the services, to a large extent, for the affordability analysis purposes to define the portfolios. It's how they manage their – so in the Army, for example, you've got tactical wheel vehicles as a portfolio with a bunch of trucks in it. Ground combat vehicle is a portfolio with those types of systems. Air Force Tac Air, Navy shipbuilding, and then you go down – go down from there.

You can also look at it from a kind of a mission perspective – for example, strategic deterrence is another portfolio we would look at. We are trying to correlate what we do with CAPE as much as we can. You know, what – and I've talked to Christine Fox about this. She does some work on long-term capital planning – or at least long-term, you know, 30-odd year out – looks at, you know, the various commodities. We're trying to align what we're doing with that, so we're all kind of looking at the same database.

You can slice it different ways once you have it, depending upon how you want to manage, but it's largely up to the services how they structure portfolios and how they think about capital planning, if you will, for their aggregations of products.

And we're – and we're working our way through it as we go. One of the things we are institutionalizing with this – and that's the reason the institutionalizing thing is up there, that we want to standardize this so that, you know, we have them locked in basically.

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Now, you do introduce new products – UAV is a good example; there are other things that kind of come into the structure, and you have to decide where to put them and whether or not to create a new portfolio just for that. But at times, if you – if you can't live within the resources for your portfolio at the historical levels, then you've got to go look at other portfolios and say, OK, we're – how am I going to pay for the Ohio replacement, for example, because that's going to bump the shipbuilding account way up. So what else in the Navy am I not going to do in order to pay for that?

MR. BERTEAU: Frank, we have a question from Tony, and then I'd like to turn to Bill and Jon for a couple of the written questions.

Q: Tony Capaccio with Bloomberg. I have two quick questions. One, do you expect much pushback from Congress on your backing off of fixed-price incentive contract use – because the SASC, as you know, and McCain were pushing this in the 2006-2007 time frame. The second question – on sequestration, can you clarify one thing? You said a couple of weeks ago that the department was planning for sequestration. (Laughter.) You got your – something in a ringer –

MR. KENDALL: I think I said – I wouldn't go quite that far. But I – I'll do that one first. I think I said that we were beginning on early stages. We've assessed some of the impacts of sequestration. We are not doing an in-depth plan for sequestration at this time. So we're not – we're not doing detailed planning. You know, we took a look – and actually, it was a little while ago – I took a look at a handful of programs to see what the impact would be, and we're obviously thinking about it, but we have not done any detailed planning. The intention is to make sure it doesn't happen.

Q: And if it doesn't, just to be clear, you do not expect a modification of an awful lot of existing contracts, you said. Did I hear that right?

MR. KENDALL: No. Most of our contracts are fully funded, OK, so they are – there are some – as again, R&D contracts that are incrementally funded. They all – all our contracts are hold – contain their termination liability, so if something were to happen to them, you know – but you know, we're talking primarily about FY13 and unobligated prior-year money. The unobligated prior-year money is not on contract yet, so it's not a contract we'd have to change; it's money we haven't awarded yet.

So the vast majority of what we do – and we would work very hard not to go modify contracts; we'd prefer not to do that. So – and I think, for the most part, that's the way it's going to be. So people that are worried about us canceling – you know, widespread cancellations and terminations misunderstand how this is going to work. It's almost entirely going to be money that's not on contract yet.

Q: (Off mic) – pushback from Congress on the fixed price –

MR. KENDALL: Yeah, you asked me about that yesterday, too. There – I – you know, there's a running dialogue going on between myself and some of the leadership in the SASC. I don't think we're very far apart at the end of the day. As long as we're left some flexibility, we're OK.

I understand that the temptation to impose more fixed-price contracting is a way to control costs. The problem I see with that isn't development, OK. I don't have a– I don't have a problem with it in low-rate production. I don't have a problem with it, obviously, in full-rate production. I am concerned about it in development.

In development, you want a relationship with a contractor where you can make changes, and you don't have to go negotiate necessarily a fixed-price cost change every time you want to make some minor change in the program. You want to have a continuing dialogue, particularly as you – as you understand the technologies better, you understand the cost of the things you might have, you want to modify your requirements. So you want a close working relationship. It's much easier to do that in a cost-plus environment.

And also, I mentioned the kinds of overruns we're seeing. You know, I don't want to transfer too much risk to industry. By telling industry they're fully responsible, you know, there are three things that can happen if we're wrong about the cost, OK? Industry can keep spending money until they get there or not, right? They can file claims against the government and say that we told them to do things – there are lots of claims that can be filed.

We're still in quarterly A-12, all right? I'm – we're still – the litigation is not quite finally settled yet, 20-odd – you know, 20 – how many years later, right? So, you know, companies will not absorb costs that they cannot absorb, period. They will not, OK? They will do one of two things. They will say it's your fault; you have to pay me. Or they will say, I'm not going to do it; take me to court and see how much you can get. So it's a – it's a false assumption that companies will continue to pay.

Now, there are cases – and I mentioned them – where fixed price for development makes sense; it's fine. And the tanker's a good example. But by and large, I would prefer at least to have the flexibility to waive any requirement so that I'm not forced into that kind of a vehicle.

What I think we're going to do if we do that – we're going to drive people out of the business, OK? Nobody's required to be a defense contractor. And if you put people in situations where, to be a defense contractor, you have to take unacceptable risks with your capital, you won't do it, all right? So it's a reality of life.

If – and it's not like the commercial industry, OK? In commercial industry, if somebody's doing a development program on their own money, they can stop any time they want. As soon as they realize it's a bad business investment for them, they quit, and they go do something else. But if we've got a fixed-price development contract with them, where they're required to deliver a product to us that meets a certain spec, and they can't do it unless they're going to vastly exceed the amount of money we're willing to pay or put on contract, they're not going to do it. It's just not going to work, so –

MR. BERTEAU: Jon? Bill?

Q: Question I have is, as I look at your list here, and also Better Buying Power 1.0, it's – it appears that you're making increased demands on the acquisition work force significant. And I – back in the 2006-2007 time frame, the department had a very detailed human capital plan that sort of came through the process and resulted in very concrete increases in the size of the acquisition work force and people targeted in certain areas.

The – I guess the question I have, in picking up on some of the things you said at the very end of your presentation – what sort of specific investments have you planned to make in the acquisition work force in order to make some of these goals here a reality, I guess, as far as the department is concerned?

MR. KENDALL: We basically have increased the size of the work force. I think that we're going to end up at about a 13,000 increase. We set out to do about 20,000. That's – we're at about the 151(,000), 152,000 level right now, and that's probably where we're going to stay. We might come down a little bit, actually.

I'm turning increasingly towards the training and experience levels of the work force, and it's – I don't think the investment is large; it's more about paying attention. Some of it's about actual training that people get. Some of it's about rewarding the right sort of things. A lot of it is about leadership. A lot of it is – the one thing I would like to do more of is get people out of staff organizations and government organizations and out with industry and out into program offices who aren't normally working there. So we've got to enforce some of the things we've had a hard time enforcing in terms of the experience and backgrounds that are required for certain jobs. We're not – it's not devastating, OK? It's a question of going from where we are to a higher level.

My counterpart in the U.K., Bernard Gray, has been working – and he's not – this isn't final yet, but he's gone a different path. He's come to the conclusion that he does not have the expertise in government in the U.K. to allow him to manage programs from within government. He's going to go out and hire somebody, essentially, to do that for him.

I don't want to do that. I think the government needs to have the in-house expertise to do the business management, the technical management – all the different, you know, key leadership types of management that I talked about earlier – from within government. And we just need to strengthen that and build it. It's a long-term process to do that. It's something the leadership is going to have to be focused on. It is – I said it earlier, and I'll say it again: It is the single most important determiner of outcomes, is the quality of the leadership, period. It's true in an operational organization; it's true in a management acquisition organization. So we just have to stay focused on that.

MR. BERTEAU: Bill?

Q: Sure. I was struck by something you said when – now, I'm not sure how far your data goes back on the overruns, historically; I'm assuming that's going back 50 years or – as far as being in the high 20s, as far as the cost there –

MR. : (Off mic.)

MR. KENDALL: About 20, 25 years. Just –

Q: Twenty, 25 years? OK, all right.

MR. KENDALL: Yeah.

Q: So the question in there – in the – in that last 20, 25 years, there's been an incredible amount of oversight structures and regimes put in place to address exactly that. And as you look to eliminating requirements imposed on industry and also, say, requirements imposed on the – on the government where costs outweigh the benefits, have you thought of any potential to revisit the old Coopers and Lybrand study back in the '90s, which essentially assessed what the cost was on the industry – never – they never did look at what the cost was on DOD – and essentially get that number and figure out can – should we chip away, and what objectives we're trying to achieve there?

MR. KENDALL: That's a good point. The – there is overhead that we impose on our programs, and it's – a lot of it's in the services; a lot of it's in – some of it's in OSD. And if you look at the record and you look at the constancy of the performance like I talked about – you know, it's clear that whatever we have added has not changed the fundamental outcomes. Now, it's – I mentioned Packard's study on – it may be that some problems have been knocked down and others have popped up, right?

You know, I used to think that our biggest single problem was getting requirements right. And I think for a long time it probably was. We would set ambitious requirements based on what people thought could be done or what they would like to have or what industry would advertising, and we'd set off to try to do those things. And that was kind of an artifact of the Cold War situation where we were always out for technological superiority because we were always trying to leap forward to get ahead. And there was a strong motivator to do that. I think that's less of a problem today than it was before.

I think we have a bigger problem now with execution. What I'm most worried about, frankly, in terms of performance of the system is the performance of industry, is industry's ability to execute. I think there's been a movement of talent away from the defense industry. There are other commercial technologies that are much more exciting for young people today, so a lot of talent's kind of going in that direction. I think that there's been a focus on financial management in industry as opposed to on product delivery. And I think we got to make the two consistent again. If we do that, then I think we'll get more out of industry.

I think we've also atrophied a little bit in terms of our own ability to do supervision of industry. That's kind of the work force piece of this. You know, we can – I can – I can incentivize industry; I know how to do that. That's done with money. It's very easy – just got to put the right kind of incentives in place. For government, we really have to incentivize people a little bit differently. It's about the recognition bullet up here, which I don't think I mentioned. But we need to make it worthwhile for our best people to go into acquisition management positions and jobs. We need to let them know that that's something that has status and prestige and is important to the country, and that it's is an exciting place to work and that you're going to accomplish great things there. And we'll get good people. And I think that's why I'm focused so much on that piece of it.

On the overhead side itself, we're trying to beat that back. That's what the bureaucracy bullets are about. One of the observations that I had coming back into the Pentagon after being gone for 15 years was that we were doing an awful lot of things from OSD that look like program management to me that really should be in the chain of command. You know, when I have one of my OIPT – Overarching Integrated Product Team – leaders having monthly meetings with program managers on the status of their program, we're obviously taking control of the program away from the program manager, and we shouldn't be doing that. We've really pushed way back on that. Probably have a ways to go.

An awful lot of the overhead is in the services – I got to look at my service colleagues here and say there are big staffs in the services too. They do a lot of reviews. And I don't know – there's a cultural issue with that in government of kind of a climate of fear, if you will. If something comes to me, people have to brief like 25 people before I see it. I don't know why it's so frightening that somebody's going to come give me a briefing, but it seems to be that way, frankly, in the culture. (Chuckles.) It's kind of hard for me to push that back. And we've talked about joint reviews as a way to kind of get around some of that, so we're going to try to beat back on that.

I don't think that overhead is a fundamental problem in terms of performance. I think it's a cost we're paying. So it kind of runs in parallel with the real work, and it is a distraction. And a lot of our managers are off giving briefings to the Pentagon instead of paying attention to what their contractor is doing. And I think there's a – there's an indirect cost that affects us there. I had a PEO tell me the other day that, you know – I mean, he had a multiyear, and there was no reason for anybody in OSD to ever review his program. He was more effective as a program manager than at any other time because all he did was focus on his program and the execution of his contractor. And I thought – I took that to heart. I thought that was an important message. And I think we need to free our people up to do their jobs more.

MR. BERTEAU: One more from the note cards, and then we'll go back to the floor.

MR. KENDALL: OK.

Q: I'd like to go back to just one other issue, and that is profitability, the bullet under incentivizing productivity and innovation. And I guess the question, really, is how will, going forward, the department try to measure profitability, and what sort of cost goals will be the baseline for aligning the two as far as programs?

MR. KENDALL: Basically what I'm talking about is the structure of fees and contracts there and how we – you know, the old equation was basically you got through R&D. R&D was usually cost-plus; you didn't make that much fee in R&D. You got to production, and then you started to make reasonable profits, particularly when you got into full rate. And then when you did foreign sales you did, you know, quite well. So that's been the equation historically, and there's been a strong motivator for industry to get out of R&D and into production. I don't think that that motivation is as strong today, so I'm looking at that.

There's also looking more carefully at what we award. So it's really about the structure of the fees, and that – what I have in mind in general is the idea that you make a reasonable profit doing R&D in a cost-plus environment and you can kind of expect to cover your cost of capital at least. And then you can make, you know, several points more by doing very well, OK? So there's a range in there in which you're, you know – so we control it, basically, by how we structure contracts.

If you look at the aggregate profit of the defense industry, it's pretty flat. It's pretty – it's a pretty stable industry – running around – Page (sp?) is nodding his head; he watches this closely – you know, 10 (percent), 11 (percent), 12 percent – that kind of range, you know, for corporate profit levels. That's not unreasonable for this kind of business. We're not – you know, being a defense company is not like being a high-tech, you know, huge growth company. It's not like that at all. It's somewhere between that and being a utility, right? So those are the kinds of ranges.

But what we want to do is reward, with a few points one way or the other, people kind of in that band. You know, a few points of profit, if you're a CEO, is a big deal. One point of profit more than your target is a really big deal. (Chuckles.) You know, people play with – you know, with small changes in those numbers, and it really matters to the market. So that's the kind of range we're in.

MR. BERTEAU: I have a number of questions from the Web, but I want to take advantage of the folks in the room as well. So Frank, why don't you call on a few with their hands up, if you want to?

MR. KENDALL: Let me do – I'm going to have to do a couple more; I've got to get back for a budget meeting on the FY14 budget, which we hope bears some semblance to reality. (Laughs.) Yeah?

Q: Hi. Paul Carrannanto from A.T. Kearney Management Consulting.

MR. : Paul, wait for the mic, please.

Q: Oh – thank you. First of all, sir, it's great to see the progress you've made on affordability targets, "should-cost" and acquisition management best practices, so congratulations on that. You also mentioned and highlighted the need for increased focus on stronger collaboration between the requirements and the acquisition community. And just wondering – I wanted to get your inputs on thoughts on how to do that, specifically around the areas of basically the – you know, maybe having a shared set of targets between the requirements and acquisition community and perhaps cascading those targets down to the requirement owners so that there's those healthy tradeoffs at the right levels of the organization. Do you have any – have any comments on that?

MR. KENDALL: The issue of requirements is two-fold. We've done something like configuration of steering boards, which are periodic committees that meet. Sean has a form, right. What do you call it again?

MR. STACKLEY: CAPE review process.

MR. KENDALL: CAPE review process to have a users form or a –

MR. STACKLEY: Provider form.

MR. KENDALL: -- provider form, which brings people together on more of a continuing basis. The – I think the configuration steering boards and so on are good. They tend to not meet often enough.

And my experience in industry and in government is that it's very hard to get a requirement changed. The junior people who are often sent there to kind of monitor how you're doing from the requirements community when you're doing an acquisition program, don't have the authority to change a requirement, and they're reluctant to go two or three or four ranks above them – their rank, which is often below general officer to a four-star – to tell the four-star he needs to change something he approved.

There's a lot of inertia in the system because of that. It takes forever to get those things changed. So that experience with the vice chief of staff of the Army, where he said he was personally going to be involved in that on a quarterly or monthly basis – because he knew that. He understood that he was the guy who was going to have to make the changes, and that people below him would not have the courage, frankly, to come to him and tell him that he needed to change something he had approved. You know, it's an unfortunate artifact of our system that people, you know, are that way, but that's the way it is – so more continuous dialogue involving senior people who are empowered to make the changes.

As you go through a program, you learn, all right, particularly in the early stages. You learn more about how much things will cost, you learn more about the difficulty of doing things. You know, the requirements community needs to assess the benefits versus the cost. One of the biggest things in here is bringing the requirements people into the cost equation.

You know, at the end of the day, the service has a fixed budget, and it's only going to get so much for that money, and it needs to make the best trade-offs possible when it's really not an acquisition problem, it's a service level problem to decide where to put the money and what to get for it and what the value is and how much they're willing to pay for that extra two knots for the LCS, for example, right? If it's going to cost me – you know, if I've got a stated requirement of X.

Now, I think the JROC process is a part of this, too, the JCIDS, the joint process for MDAPs. I've talked to – when Hoss Cartwright was here, he and I had several conversations about this. Admiral Winnefeld and I need to have some. We've talked about it a few times. I mentioned that I'd go to his meetings.

I think we're putting way too much into those requirements documents the joint staff were producing. We've got to thin those down to the essentials because the problem there, again, is you clog up the bureaucracy; people have to go back to that level to get a change. And I think that's really not necessary, frankly. It's not helping. So that's one area where we can improve our efficiency quite a bit.

MR. BERTEAU: Frank, when we have a former administrator of OFPP in the audience, we always like to give him the opportunity to ask a question.

MR. KENDALL: And I saw him. I know he was waiting there with a question for me. (Laughter.)

MR. BERTEAU: Frank, thanks.

MR. KENDALL: Hey, Gordon. How are you doing?

Q: Dan Gordon, now at GW Law School's Government Procurement Law Program.

MR. KENDALL: (Laughs.)

Q: Let me just say that when I worked at OMB, I used to say to people, the more responsibility we give Frank Kendall, better for the department and the better for us all. (Laughter.) What I heard –

MR. KENDALL: No, I'm done. I'm – this is it. (Laughs.)

Q: Do you agree – no, sorry. What I heard and saw this morning confirms that, in terms of a sophisticated, nuanced approach that clearly reflects input you're hearing from all sides. I want to ask you, if I can, get your reaction to an issue about the acquisition work force, building on some of your remarks and some of your response to questions.

My question – my concern goes to things that I heard when I was in the White House, but also what I heard as part of my participation on the procurement round table, and that's the fear in the acquisition work force on the part of our contracting officers, contract specialists and what that fear is driving them to.

I want to highlight three patterns of behavior because I think they're very much related to where you're trying to go. And I – and I will say that what I hear is that, yes, there are more people, but I'm nervous about what the new people are going to learn.

Three patterns of behavior.

Pattern number one, afraid to talk to industry. In our experience, it's particularly damaging early on before you issue the solicitation. That's why we issued the

"MythBusters" campaign. Industry loves it, but what I hear from government, including in the department and some of the services, is a mixed message. They're afraid to talk to industry; they're afraid they're going to get in trouble. That's number one.

Number two, maybe less important but worth mentioning, the fear of conducting discussions because contracting officers get it into their head that if they conduct discussions, they're going to end up with a bid protest, and it's just going to take too long and they'll get dinged. The result is we often, as you know, leave money on the table because we make award based on initial proposals, we may be missing a potentially great contractor or at least a lower price.

On protest, as you know better than most people in this room, protests are incredibly rare. More than 99 percent of the department's procurements go through without protest, and yet our contracting officers, when I talked to them, I heard again and again they're terrified.

The bid protest – I used to tell them the likelihood of losing a bid protest is like being hit by lightning. That didn't make them feel better, it did make them worry about lightning.

Third one and then I'll stop, and that's – because it came up on your chart, and I confess this one makes me nervous even though I haven't seen enough data about it – low-price technically acceptable. When I look at what you've got there, I'm nervous that people are going to think that LPTA is fine "as long as." And I'm worried that the message maybe should be don't use LPTA unless you're able to define your quality requirements clearly.

I'm hearing so many stories about LPTA being used for services, including professional services, where, frankly, I find it astonishing that it makes sense at all. It means, among other things, giving up our ability to reward the contractor that's done well because we can't take past performance into a trade-off.

A lot to ask, but I'm curious to hear your reactions.

Thank you, Frank.

MR. KENDALL: On the first one, I agree – I share your concern, because I've heard that, too. You know, I think talking to the industry is vital, OK, and we should be available to industry. I'm very accessible to industry. And I think all of the leadership in the services tries to do the same thing. I think when you get down a few layers, sometimes people are nervous about it. Essentially, my view is, until the final RFP goes out, you should be available to listen to industry. Now, you got to be careful about how you handle yourself and what you say, but you should be able to listen to industry until that final RFP goes out.

Same thing on discussions, OK? I – that's part of being, you know, competent and professional on our side of the negotiating table. So engaging in discussions with industry and trying to, you know, work from an initial offering down to something that's more reasonable is absolutely something we should be prepared and equipped to do.

I occasionally hear people say that, you know, industry has got these expensive Harvard lawyers, or Georgetown lawyers – I'm one – that they bring in and then, you know – you know, they overwhelm you with whatever. That's nonsense. If you do your preparation, you know, we can be fine. We're perfectly capable of negotiating contracts. I'm engaged in some interesting negotiations right now, as a matter of fact, where I think we're doing quite well. So we've got plenty of talent on our side. People have just got to be willing – if you get the experience, we can do that. There's no reason why we can't do that.

LPTA. The – I've got to get some data on how much we're actually using it, because I think there may be a little bit of an overreaction. I don't think we're actually using it all that much. We are using it for service contracts, in some cases. And I want to go take a harder look at that, and I don't have enough data to give you a good answer right now.

I'm getting the reaction that I talked about, largely from industry on the services side of the House, where again, incumbents are concerned that they're not being considered in a way which makes sense. And I – you know, it – the fear of protest does exist out there. It kind of permeates through the system. You know, I think at the end of the day we should not be paranoid – or paralyzed, is probably a better word – by fear of protest or by fear of litigation. We've got lawyers. We know how to argue a case with the GAO or wherever. You know, we can – we can do those things, if we're right. You know, we just got to do our homework.

Now, we've had some cases where people have really fallen down and they have not done a good job. And you know, well, there was a case that I know C.R. is very familiar with recently in the Air Force where people just simply didn't do a good job, and we had to throw out our procurement and redo it. That's very rare, OK? And protests are not all that common – they used to – is it – they are more common than they used to be, because money is short and industry doesn't have as many opportunities. So if it doesn't cost them anything and there's a shot at it, they'll take a flyer. But, you know, well-founded protests I think are still pretty rare because we don't give people that many opportunity to file a well-founded protest. And I wouldn't encourage (sic; discourage) anybody from doing it. If they think they have a good case, then they should – they should protest.

I might have to go; I think –

MR. BERTEAU: Frank, we – I know you're going to have to go. There are a whole slew of questions; we've got questions in the audience, we've got questions that have been written in, we've got a number of questions by email. You have a feedback process that you are going to follow here, and I wonder if your last comment would be a little bit about that feedback process, because we'll take all these questions and we'll make sure you get them so that they're part of your feedback process.

MR. KENDALL: OK. Brett and Katrina are kind of my focal points – Katrina and Brett, on the industry side. And we have a website; I think it's betterbuyingpower.mil, is that right?

KATRINA MCFARLAND : Yeah, it's on the sheet that you have. There's a blue piece of paper, and it's on the bottom on the corner.

MR. KENDALL: So I appreciate your time. And I didn't talk about anything titillating or – what's the right adjective –

MR. BERTEAU: Yeah. No Gmail –

MR. KENDALL: But, you know, for those of you who get excited by defense acquisition policy, I hope it was a good session. (Laughter.)

MR. BERTEAU: You're welcome to our crowd. Thank you. Thank you very much for your time this morning. (Applause.)

(END)