OFFICE OF THE UNDER SECRETARY OF DEFENSE
ACQUISITION • TECHNOLOGY • LOGISTICS

Better Buying Power 3.0

Achieving Dominant Capabilities through Technical Excellence and Innovation

Achieve Affordable Programs
- Continue to set and enforce affordability caps

Achieve Dominant Capabilities While Controlling Lifecycle Costs
- Strengthen and expand "should cost" based cost management
- Anticipate and plan for responsive and emerging threats by building stronger partnerships of acquisition, requirements and intelligence communities
- Institutionalize stronger DoD level Long Range R&D Program Plans
- Strengthen cybersecurity throughout the product lifecycle

Incentivize Productivity in Industry and Government
- Align profitability more tightly with Department goals
- Employ appropriate contract types, but increase the use of incentive type contracts
- Expand the superior supplier incentive program
- Ensure effective use of Performance-Based Logistics
- Remove barriers to commercial technology utilization
- Improve the return on investment in DoD laboratories
- Increase the productivity of corporate IRAD

Incentivize Innovation in Industry and Government
- Increase the use of prototyping and experimentation
- Emphasize technology insertion and refresh in program planning
- Use Modular Open Systems Architecture to stimulate innovation
- Increase the return on and access to small business research and development
- Provide draft technical requirements to industry early and involve industry in funded concept definition
- Provide clear and objective "best value" definitions to industry

Eliminate Unproductive Processes and Bureaucracy
- Emphasize acquisition chain of command responsibility, authority and accountability
- Reduce cycle times while ensuring sound investments
- Streamline documentation requirements and staff reviews
- Remove unproductive requirements imposed on industry

Promote Effective Competition
- Create and maintain competitive environments
- Improve DoD outreach for technology and products from global markets
- Increase small business participation, including more effective use of market research

Improve Tradecraft in Acquisition of Services
- Strengthen contract management outside the normal acquisition chain – installations, etc.
- Improve requirements definition for services
- Improve the effectiveness and productivity of contracted engineering and technical services

Improve the Professionalism of the Total Acquisition Workforce
- Establish higher standards for key leadership positions
- Establish stronger professional qualification requirements for all acquisition specialties
- Strengthen organic engineering capabilities
- Ensure development program leadership is technically qualified to manage R&D activities
- Improve our leaders' ability to understand and mitigate technical risk
- Increase DoD support for STEM education

Continue Strengthening Our Culture of:
Cost Consciousness, Professionalism, and Technical Excellence

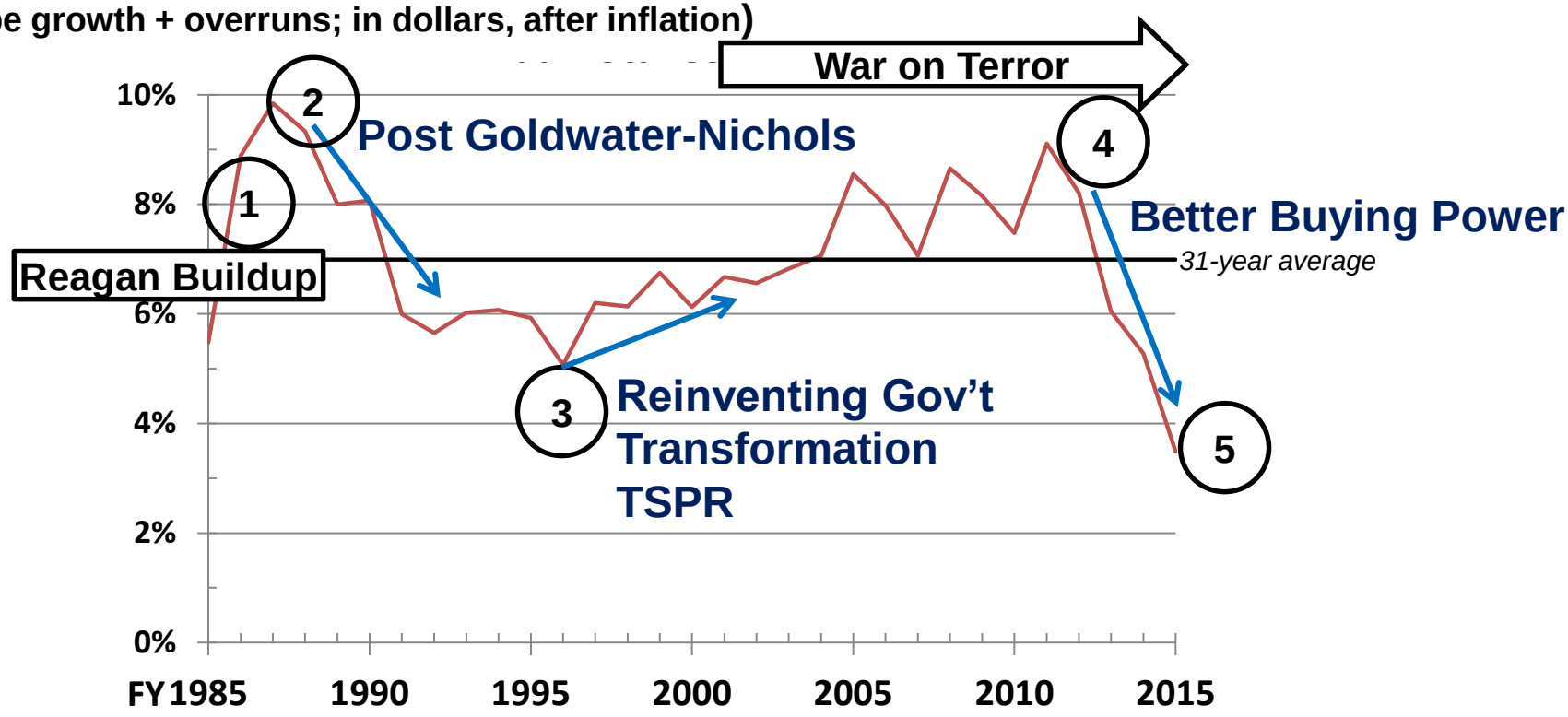
Attachment 1

5-year Moving Average of Annual Growth of Contracted Costs

(largest contracts on major programs, 1985–2015)

Contract Growth: Development and Early Production

(scope growth + overruns; in dollars, after inflation)

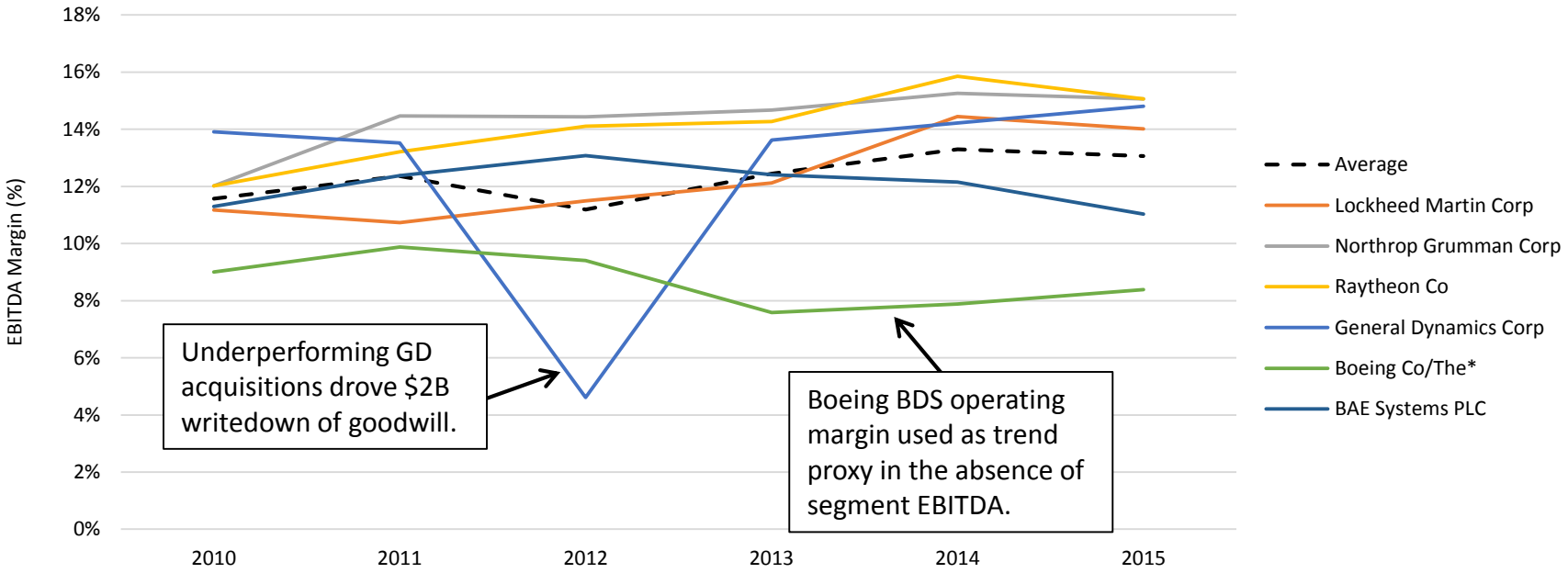


TSPR = Total System Performance Responsibility

n = 1,123 contracts for 239 programs

DoD Prime Suppliers Profitability Analysis

Historical EBITDA Margin (%) of the Largest Six DoD Primes

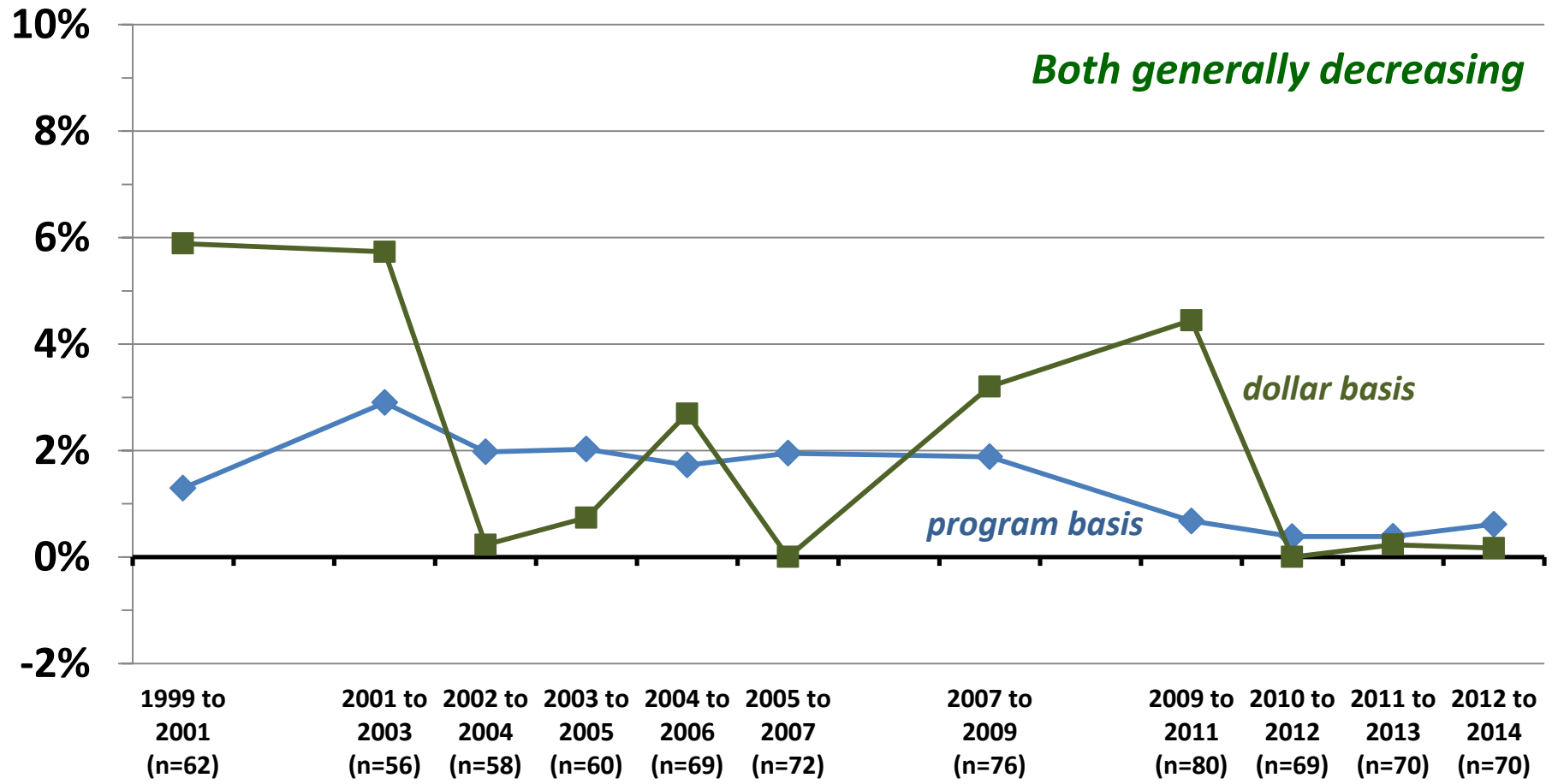


	2010	2011	2012	2013	2014	2015
Average	**11.8%**	**12.5%**	**11.3%**	**12.8%**	**13.7%**	**13.3%**
Lockheed Martin Corp	11.2%	10.7%	11.5%	12.1%	14.4%	14.0%
Northrop Grumman Corp	12.0%	14.5%	14.4%	14.7%	15.3%	15.1%
Raytheon Co	12.0%	13.2%	14.1%	14.3%	15.9%	15.1%
General Dynamics Corp	13.9%	13.5%	4.6%	13.6%	14.2%	14.8%
Boeing Co/The	10.4%	10.9%	9.9%	9.7%	10.3%	9.7%
BAE Systems PLC	11.3%	12.4%	13.1%	12.4%	12.1%	11.0%

Development:

Median Biennial Change in Major Program Costs (Realized plus Estimated)

Biennial Funding Change in Total RDT&E

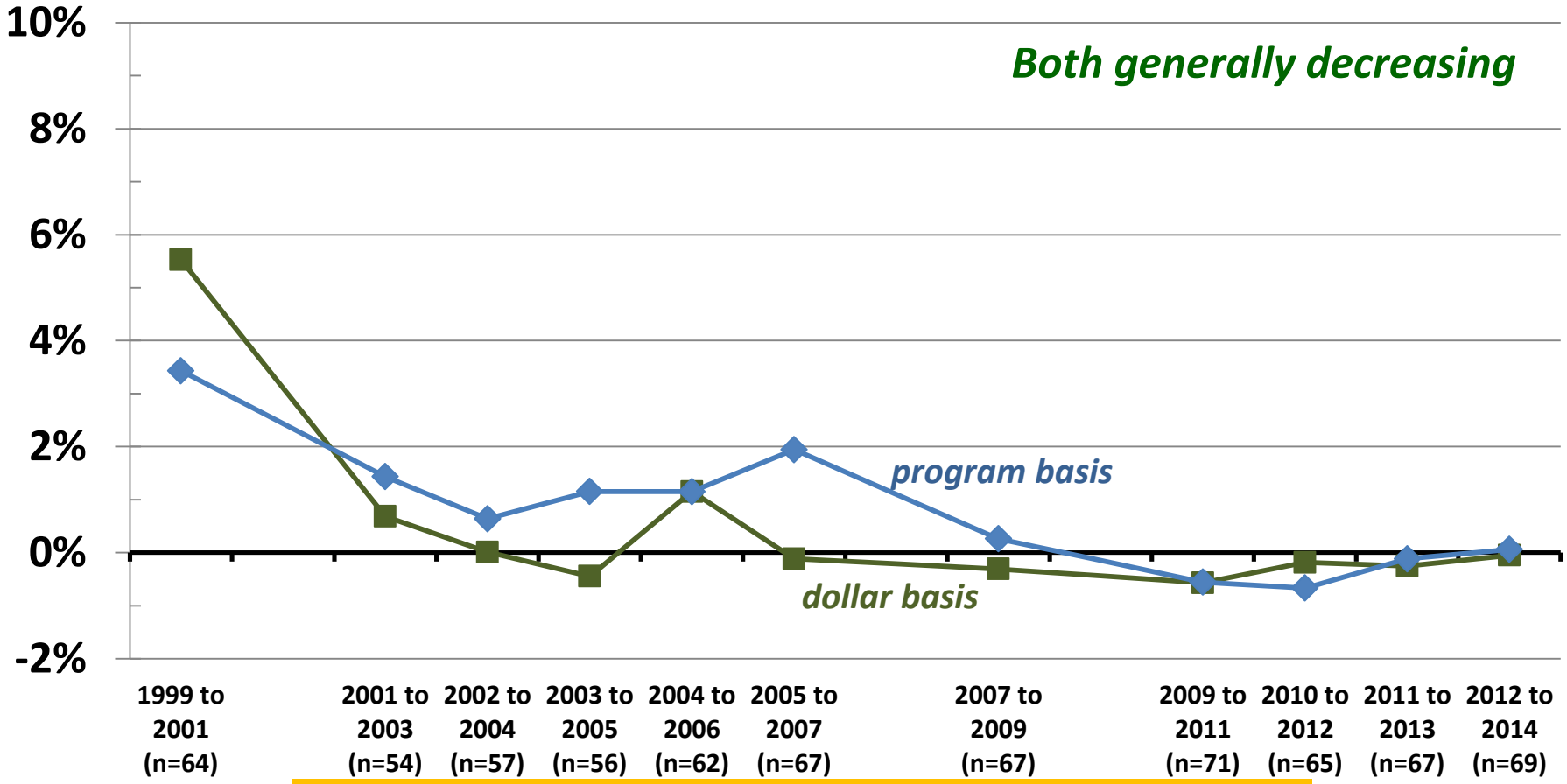


Median biennial change in program total funding needed has been near zero since 2010

Procurement

Median Biennial Change in Major Program Costs (Realized plus Estimated)

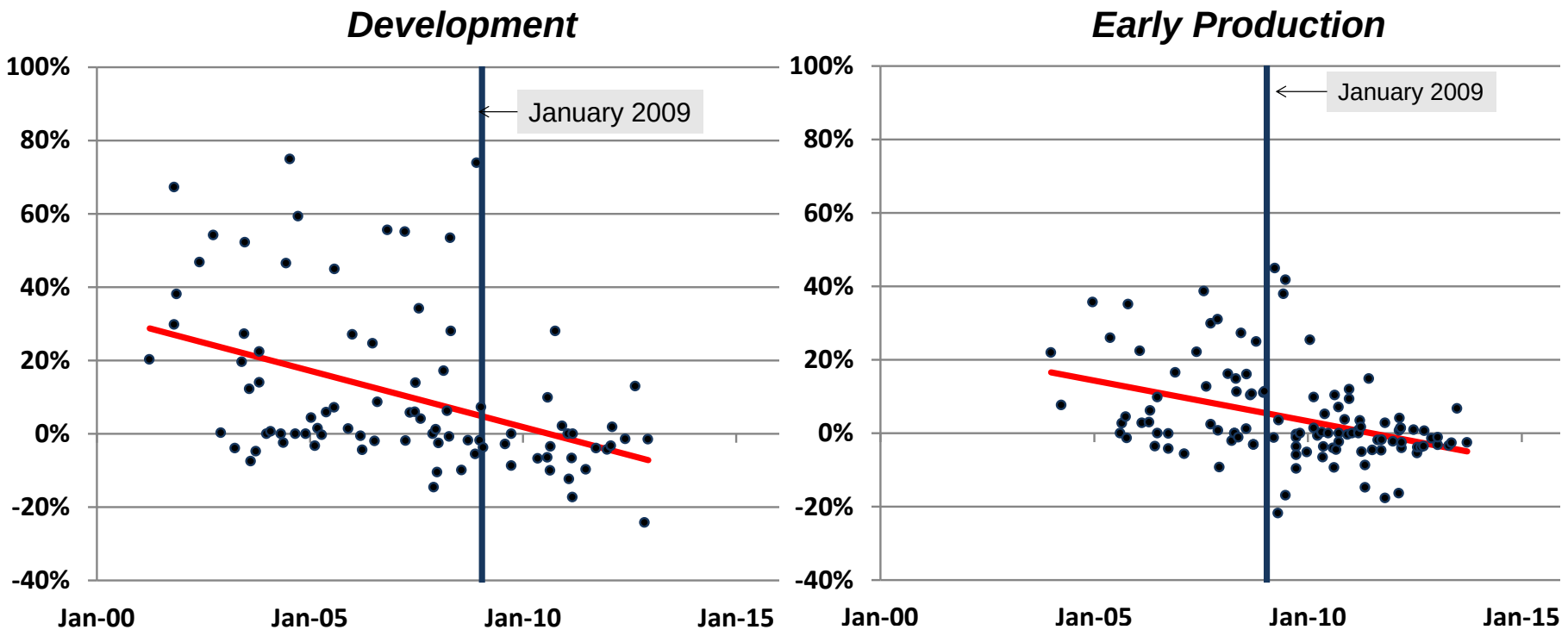
Biennial Funding Change in Total Quantity-Adjusted Unit-Procurement Recurring-Flyaway



Median biennial change in program total funding needed has been near zero since 2009

Major Program Contract Cost Growth Related to Negotiated Cost Targets

Cost-Over-Target on Contracts for Currently Active MDAPs (controlling for inflation)

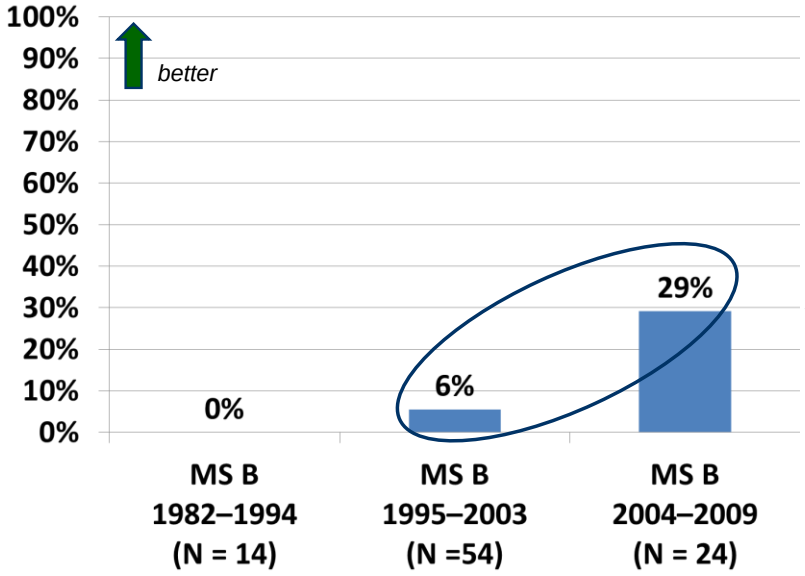


(not firm-fixed price contracts)

Development

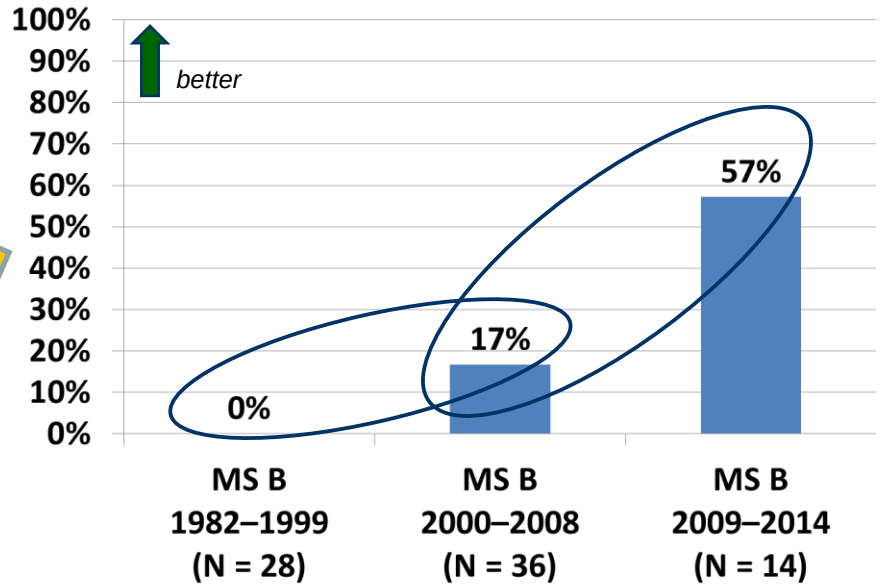
Percent of Major Programs With Cost Reductions Relative to Original Baseline

As of 2009:



Upward shift

As of 2014:



Significant positive shift from 2009 to 2014

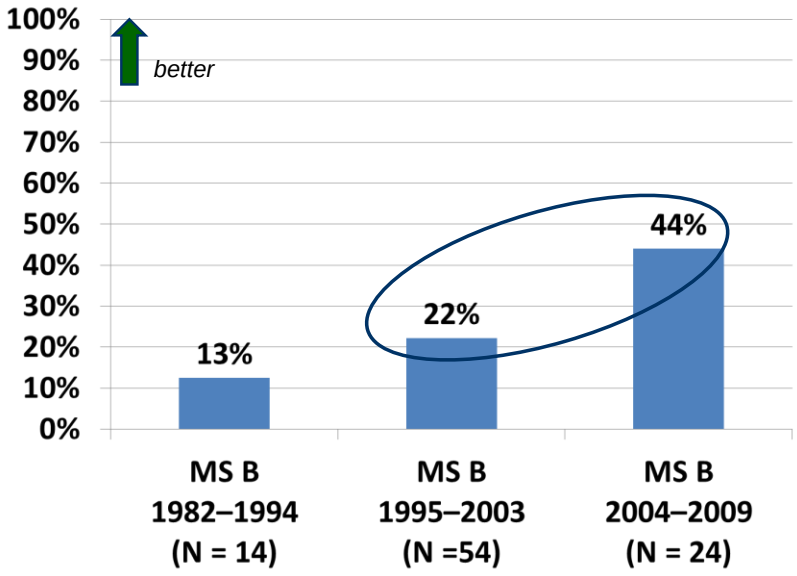
statistically significant difference

"Should Cost" at work

Production

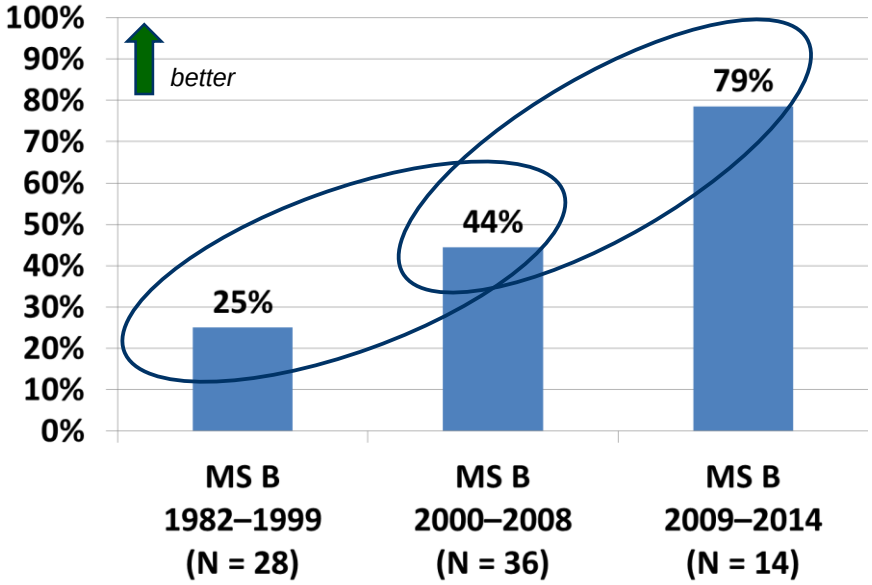
Percent of Major Programs With Cost Reductions Relative to Original Baseline

As of 2009:



Upward shift

As of 2014:

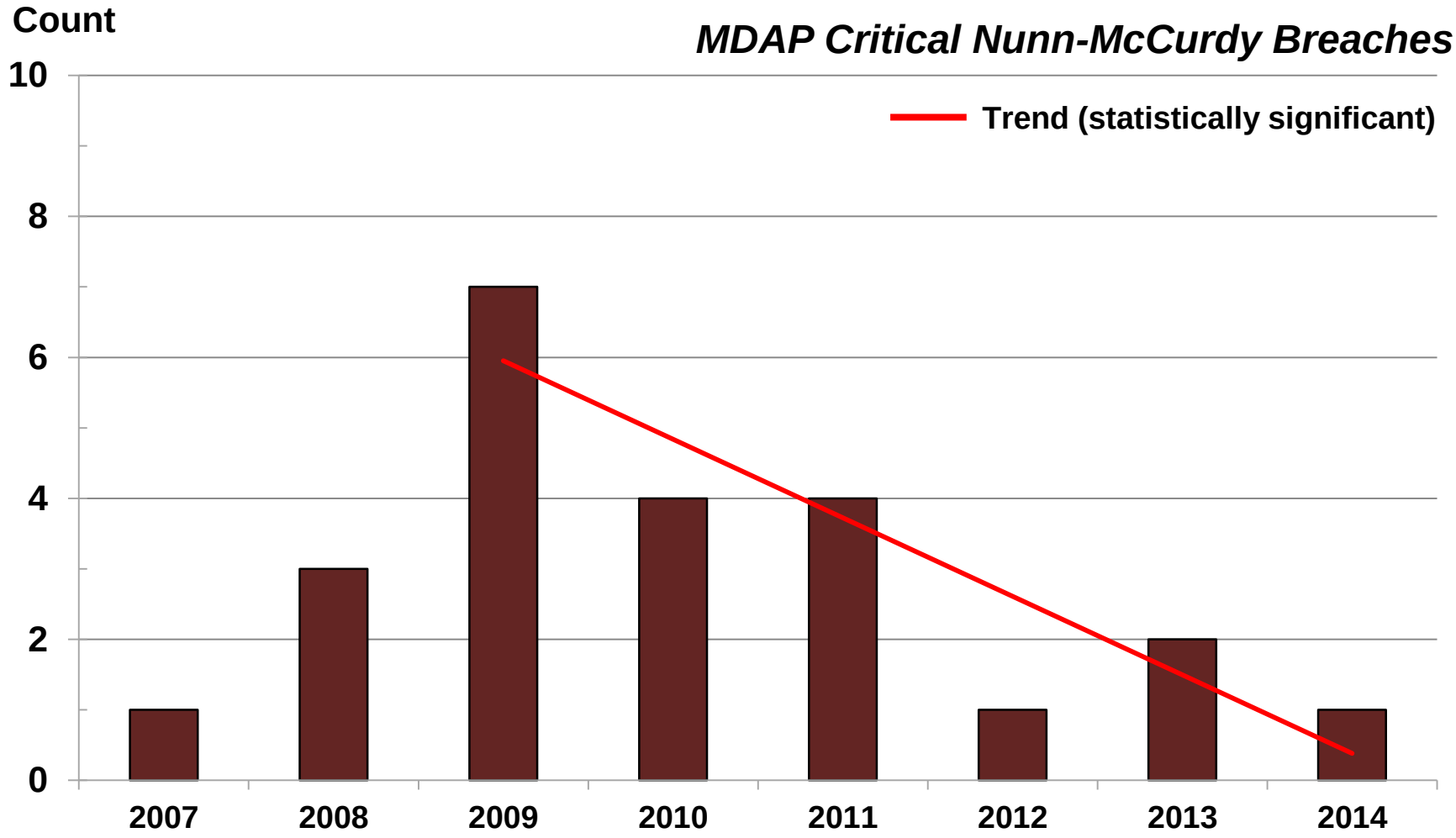


Significant positive shift from 2009 to 2014

statistically significant difference

"Should Cost" at work

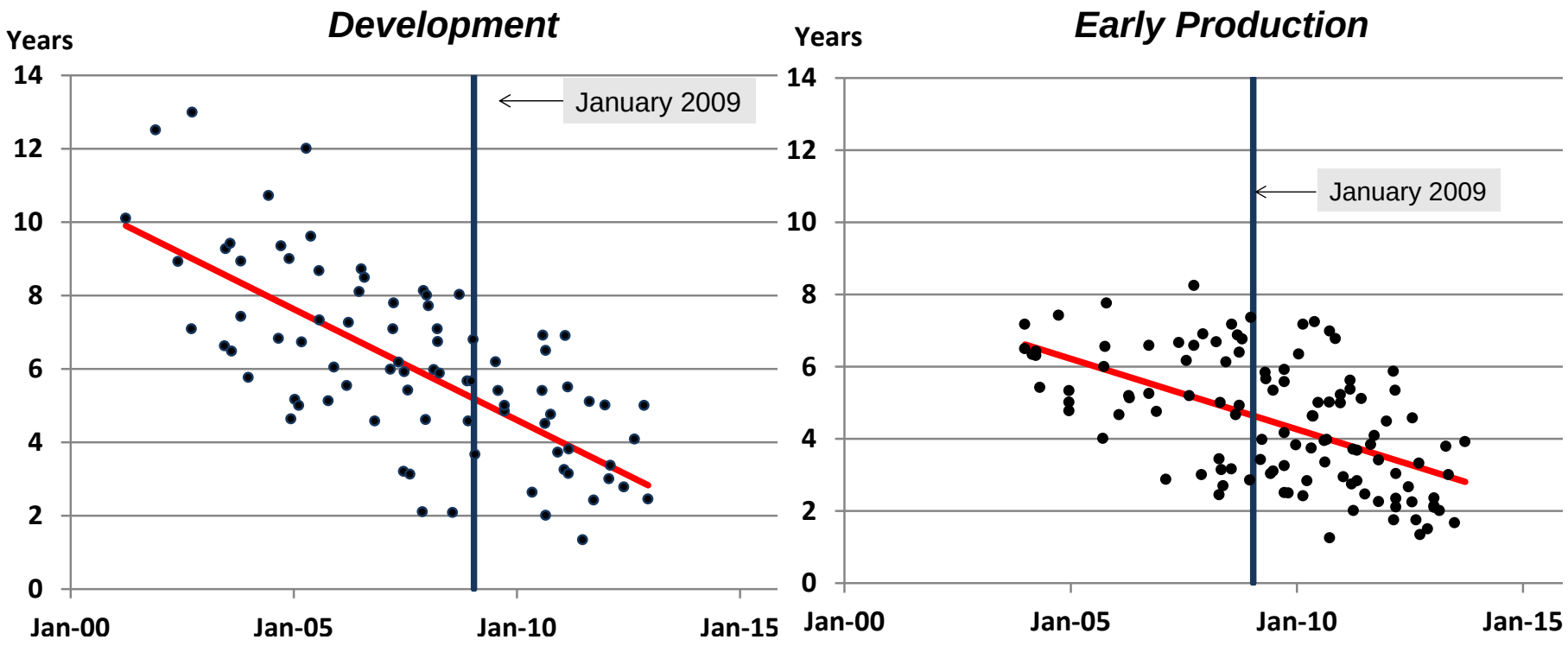
Major Programs Crossing Congressional Cost-Growth Critical Thresholds



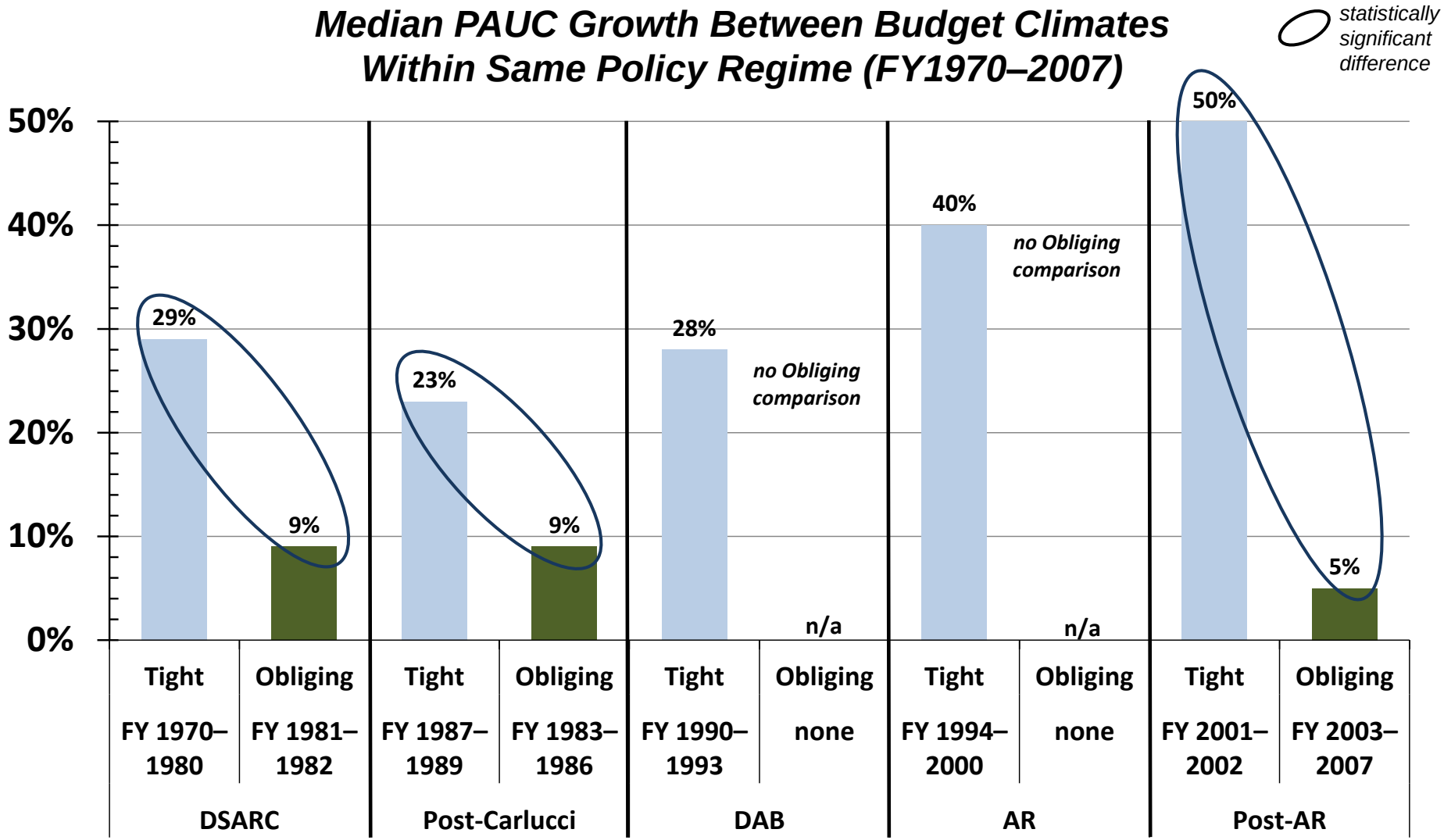
Fewer major programs are crossing Congressional cost-growth critical thresholds

Major Program Contract Lengths

Contract Cycle Time for Currently Active MDAPs



Effect of Budget Climates on Program Acquisition Unit-Cost Growth



Better Buying Power Principles

Principle 1: People matter most; we can never be too professional or too competent

Principle 2: Data should drive policy

Principle 3: Critical thinking is necessary for success; fixed rules are too constraining

Principle 4: Controlling life cycle cost is one of our jobs; staying on budget isn't enough

Principle 5: Continuous improvement will be more effective than radical change

Principle 6: Incentives work – we get what we reward

Principle 7: Competition, and the threat of competition, is the most effective incentive

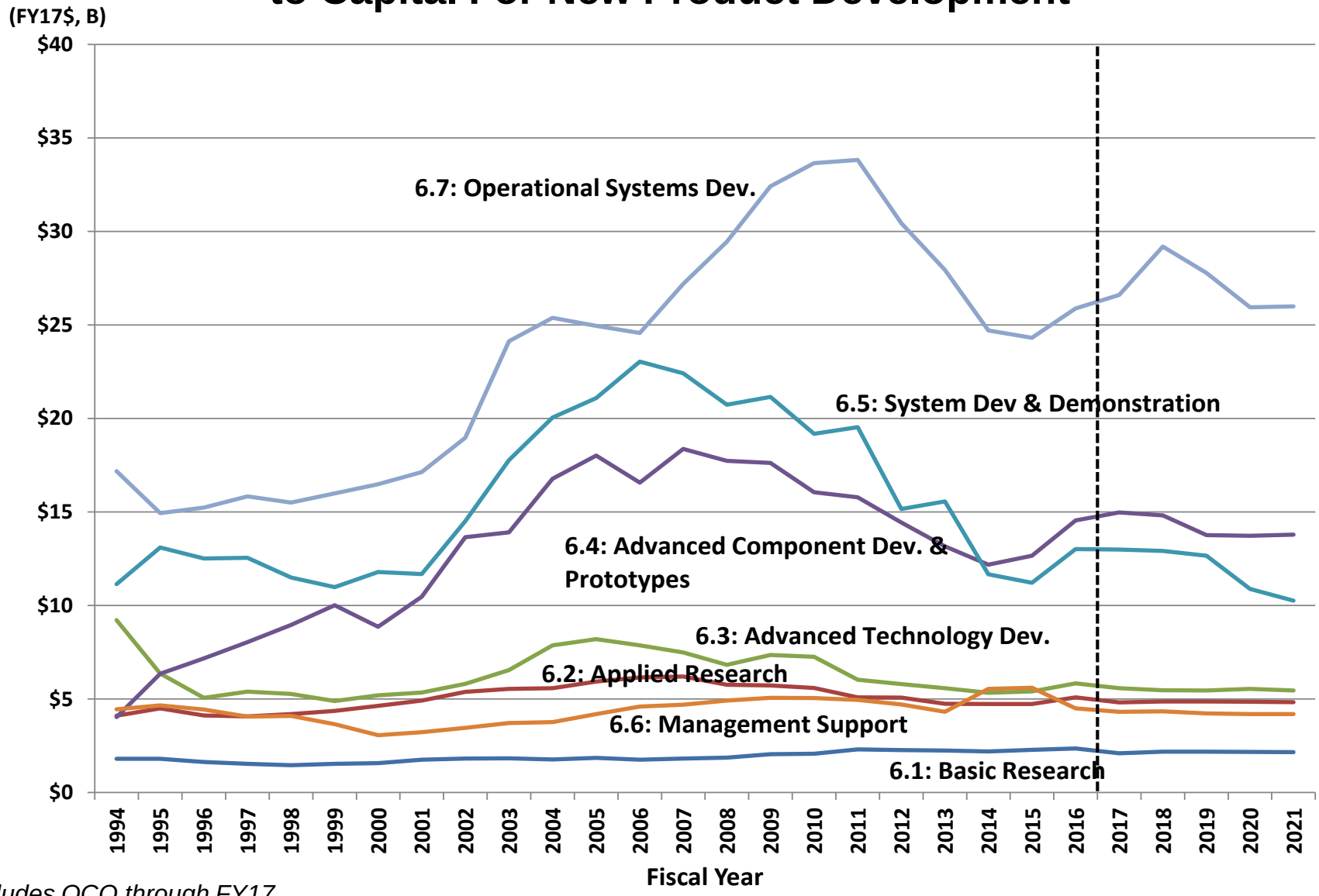
Principle 8: Defense acquisition is a team sport

Principle 9: Our technological superiority is at risk and we must respond

Principle 10: We should have the courage to challenge bad policy

RDT&E Funding

Our Problem Is Not Innovation; It Is Access to Capital For New Product Development



NOTE: Includes OCO through FY17

All Acquisition Reform Comes Down to Four Basic Things

1. Set reasonable requirements
2. Put professionals in charge
3. Give them the resources they need
4. Provide strong incentives to succeed