Center for Strategic and International Studies (CSIS)

"Better Buying Power Initiative 2.0"

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ASHTON CARTER: Thanks, Kim, for that introduction, for the opportunity to be in this great organization and forum, for everything you do for the Department of Defense and have for a number of years for national defense. Much appreciated.

To Dave Berteau -- I know he's not here -- but to him and his family, we wish you strength and send you our condolences.

This is really an initiative that is to the credit of Frank Kendall. It's his show, and I'm just the warm-up act here. But I'll give you a little background on this. First of all, I'm delighted to see all my colleagues from the acquisition community here. Good friends and very skilled people.

Let me take you back. It was two years ago at the Eisenhower Library that then-Secretary of Defense Gates spoke presciently, it turns out, about the days of ever-increasing defense budgets soon coming to an end as our elected leaders grappled with our fiscal circumstances. What he said at the time famously was, the gusher has been turned off and will stay off for a good period of time.

And in acknowledgment of that coming fiscal reality, and in an effort to minimize the impact of it, Secretary Gates launched an initiative across the department to ensure that the department would not be forced to sacrifice, wherever possible, an ounce more force structure than was necessary. Better Buying Power, which was, until now, we have to call Better Buying -- Better Buying Power 1.0, it was -- which was introduced in September 2010 by me and my partner, Frank Kendall, was the acquisition system's contribution to this overall initiative. And it was directed at the approximately $400 billion a year that the department spends in the acquisition of goods and services. Better Buying Power's goal was, as we said then, more capability for the war fighter and more value for the taxpayer by obtaining greater efficiency and productivity in defense spending -- what economists call productivity growth.

To achieve these objectives, we directed 23 principal actions in five major areas. First, target affordability and cost growth in our programs. Second, to incentivize productivity and innovation in industry through profit and partnership. Third, to promote real competition wherever we could. Fourth, to improve our tradecraft in the acquisition of services as opposed to goods. And fifth, to reduce nonproductive processes and bureaucracy in the government as well as in industry. And I won't go over each of these areas, but it's worth noting that over the past two and a half years, we've worked hard and with some considerable success in some major programs to implement these directives.

And -- but at the same time, though, we acknowledge the time we released Better Buying Power 1.0 that we wouldn't get everything right, that we weren't -- hadn't captured every good idea that was out there, that we knew that in some cases the data sets upon which we were basing decisions were still incomplete. And we knew that we would need to adjust based on initial implementation experience. We also knew that industry would continue to come to the table with good ideas and constructive criticism.

And in this regard, let me address a few industry concerns that I share and I think our leadership shares that we've learned up front. The first, I recognize that industry needs profits and margins to be successful. While incentivizing cost consciousness will continue to be centrally important to our work, we need to do -- also to pay more attention and be attentive to best total value and program risk so that transactions are successful for both parties.

Second, I share industry's concerns about an excessive oversight culture. I've long been concerned that the number of -- (audio break) -- may in fact be reaching that threshold, especially with respect to things like audits, and we're trying to work internally and work with industry to address these issues.

And third, we've listened to and are addressing industry concerns about contracting practices, where it's possible for us to do that.

More broadly, a notable feature of Better Buying Power 2.0, as Frank will explain in more detail, is improving the professionalism of the total acquisition workforce, which encompasses program management, engineering, contracting and product support disciplines. We know that the quality of our people is an essential ingredient to our success as an acquisition enterprise.

As we continue to implement Better Buying Power, we look forward to working with our industry partners and our acquisition workforce to do more and more each and every year to get more value for the taxpayer and the war fighter. In fact, that's what Better Buying Power 2.0 is all about, just like Better Buying 1.0, and I salute Frank, who was my partner then and is now the leader of this effort, and his team, which is here, for their excellent work.

Now, achieving Better Buying Power would of course be an important goal in budget environment, but its importance has only grown given the strategic and budgetary challenges we now face. Since Better Buying Power was first unveiled, Congress passed the Budget Control Act, which required the department to cut $487 billion from our defense plans over 10 years. A year and a half ago, we did that: first, by devising a new defense strategy to guide us as we turn a strategic corner from the post-9/11 era dominated by the wars in Iraq in Afghanistan to an era defined by new challenges and new opportunities.

While the budget that we derived from our new strategy absorbs significant reductions in defense spending, it made important strategy-driven investments in the Asia-Pacific region, where so much of our future economic and political interests lie; in special operations forces; in future-focused domains such as cyber and space; in countering weapons of mass destruction; and in certain areas of our science and technology portfolio, including electronic warfare and command and control. It's still true today as it was then that every dollar not wasted is a dollar that can be invested in these new capabilities.

At the same time, as we have made reductions to our base budget spending plans, our overseas contingency operations funding, which is not included in the base budget and which is largely for Iraq and Afghanistan, is also decreasing. Taken together, these reductions in base and OCO compare in pace and magnitude to historical cycles -- excuse me -- in defense spending the nation has experienced in the past, either after Vietnam or after the Cold War.

However, as this audience well knows, due to the collateral damage of political gridlock here in Washington, we are now also operating under sequestration, which requires us to subtract an additional $37 billion from our budget for the remainder of fiscal year 2013. Sequester presumes that we take equal or proportionate shares from each and every part of the budget, which is the worst managerial approach possible. Sequester is not only regrettable in its own right, but it distracts from the true strategic and managerial tasks before us.

Secretary Hagel and I and the entire leadership of the department are doing everything we possibly can under this deliberately restrictive law to mitigate its harmful effects on national security. But, as the Joint Chiefs have emphasized repeatedly, the impacts on our readiness are real and in many cases irreversible.

Now, while the sequester for FY '13 ends October 1st, there's no way to know what's -- for sure what's next here in Washington. Virtually no one believed that sequester -- sequestration would actually go into effect in the first place.

Now, we in DOD can adjust and adapt to a wide range of contingencies, but this will be easiest if we have stability, time and flexibility. The president has submitted a budget that meets these goals as part of a balanced deficit reduction plan. For Defense, it contains $150 billion more in 10-year cuts compared to last year's plan in addition to the 487 billion (dollars) reflected in the Department of Defense's fiscal year 2013 budget. Most of these cuts occur beyond 2018, which gives us time to plan and adjust.

And while no agency wants to cut its budget, the president's plan is much more practical than the cuts that could occur under persistent sequestration, cuts that could amount to $52 billion in FY '14 alone and could cost $500 billion over 10 years.

We urgently need Congress to grant us stability, time and flexibility. The House budget resolution, the Senate budget resolution, and of course the budget control act, actually have a wide range of future scenarios for our budget, not the stability we seek.

For this reason, in March the secretary asked me -- Secretary Hagel asked me, working with Chairman Dempsey, to conduct a strategic choices and management review to examine the choices that underlie our defense strategy posture and investments, including all past assumptions and systems.

The review will define the major choices and institutional challenges affecting the defense posture in the decade ahead that must be made to preserve and adapt our defense strategy and the department's management under wide range of future circumstances that could result from a comprehensive deficit reduction deal, or the persistence of the cuts that began with this year's sequester.

Everything's on the table: roles and missions, war planning, business practices, force structure, personnel and compensation, acquisition and modernization investment, how we operate, how we measure and maintain readiness. We plan to complete our work and tee up decision points and recommendations to Secretary Hagel and the president in the coming weeks and months.

The choices that are made will inform how we execute our FY 2014 budget, our FY 2015 budget submission, and will serve as the foundation for the Quadrennial Defense Review, due to Congress next February.

And I hope that one of the principal benefits of the review for our acquisition programs -- and correspondingly for industry -- will be to bound the uncertainty that we currently face. Uncertainty is anathema to good management. For us, and also for our partners in industry, it discourages investment. It causes the hoarding of capital, prevents the natural rationalization of our industrial base, and it harms growth.

I should also mention that in conducting our review, we have been very mindful of how the choices we are considering will affect industry, which is the basis of the CSIS forum we speak to today. As I've said many times before, the success of our better buying power efforts, and the defense enterprise for that matter, is clearly dependent on having a healthy, robust and vibrant industrial base -- as dependent upon that as it is getting best and superior value for the taxpayers' dollar and for the war fighter.

Let me close again by congratulating Frank, the entire acquisition team that has worked so hard for the taxpayer and for the war fighter -- does it every day, and so hard, on this important effort.

Frank, especially to you, my friend, my partner for a long time. He's done a tremendous job of implementing Better Buying Power 1.0, and a fantastic job moving beyond that to an improved version of Better Buying Power, which he'll outline today. Frank and the rest of the team here, you've made a tremendous difference. Thank you. (Applause.)

FRANK KENDALL: I want to thank Secretary Carter. It's terrific to have a boss who really understands what you're doing and supports you, as much as he does. And it was a great partnership. I miss it, but I'm carrying on the work, as you can see. And thank you for your support.

I want to thank CSIS for hosting this afternoon. Thanks, Kim Wincup, for MCing.

Beyond that I of course want to thank my team, the people who have made this possible today and did all the work that went into this, starting with Katrina McFarland and Jim Thomsen, who carried on their work from Better Buying Power, what we're now calling 1.0, into 2.0, and putting all of this together for me.

Service acquisition executives, represented by Heidi Shyu from the Army -- major contributors to this. OSD staff people -- I'm not going to go through all the names. You've got a lot of you here today.

And industry. Industry provided us with a lot of inputs for this version of Better Buying Power, this upgraded version, if you will. That dialogue continues. I just got a letter today from AIA with some additional things they'd like to talk about, and we're delighted to do that and carry on that dialogue. That conversation is going to continue. We learn a lot from industry, and a lot of industry's inputs are reflected in the things that are on this chart.

I'm not going to walk through 34 bullet points with you. That would take more time than we have. I'm going to hit a few of the wave tops, but before I do that, I'd like to say a little bit about, sort of, this initiative overall and how it fits into what we're doing. Someone asked me not too long ago if I was a transformational or an evolutionary leader. And the answer I gave, after thinking about it for a second, was that I'm more evolutionary.

Part of that is that I don't believe there are simple fixes. I don't believe there are just one or two policy changes we can make which are going to fix, if you will, defense acquisition. We're in a very, very complicated business. And we had 2 initiatives in Better Buying Power 1.0, and there are about 34 here. There are another hundred things, at least, that we're working on that aren't on this chart. And it's a very complicated business; it covers a wide range of products and services that we acquire, and a number of organizations which all have their own cultures, technologies that are difficult -- cutting-edge in many cases, services that we need to produce more efficiently; it's a very, very big scope that we're trying to address here.

And the way to improve it, I think, is not with one or two policy changes, or even five or six, it's with continuous effort to understand the results that you're getting, why you're getting them and where you can make improvements on the margin. And that's what this is all about. Another important feature of this is that sub- bullet up at the top: a guide to help you think. When Dr. Carter and I put out 1.0 and went around the country talking to the work force, one of the things we told them was that we really wanted them to think, that the guidelines we had put out in 1.0 were not hard rules written in stone to be followed in every occasion. They had to be applied with judgment, and that's what the thinking part is about.

The range of things that we do is so diverse that each problem has to be approached and assessed on its own rights. That's a process that our people have to go through. That's one of the reasons there's a new category up here about professionalism in the work force. That's not an easy job. It takes professionals, and it's the key to success. Getting those little decisions right -- getting the acquisition strategy right, really understanding the technology maturity in your program, really understanding what makes industry perform better for you -- what incentives work and which ones don't. And those are threaded all through this.

So what you see in the guidance that I just put out implementing 2.0 is a combination of some general guidance and then some specific actions that people will take. In many cases, it's to provide more thorough and more complete guidance to people to help them through the process of deciding how to actually implement this. There is a stronger emphasis on the -- our work force in government in this set of initiatives than there was, I think, in 1.0, and we're moving towards a direction where we do much more to improve our work force to make it more capable of making the judgments that have to be made to be successful and to improve outcomes.

So, evolutionary? Yes, but transformational? Over time. If we continue to make improvements on the margin -- and that's what this is all about -- we will transform our results. Now, I want to give Ash credit for this, because I think we're seeing some things that show some evidence of improvement. I don't want to make too much out of a couple of data points. We're sending our collective acquisition reports to the Congress today -- first time in my memory there are zero Nunn-McCurdy breaches, neither critical nor significant in that report, and I think that we can give credit to Dr. Carter, I think, in large part for the leadership that went into moving us in that direction, and the whole team for continuing the things -- all the -- including industry, by the way. So there is some evidence that things are getting better. We're getting some complimentary reports from the GAO for the first time in my memory, but we have -- (laughter) -- well, maybe not the first time.

We're going in the right direction, but there's still a lot of room to do better, and that's what this is about: finding those things on the margin where we can do better. Let me walk through a few of the specifics. Affordable programs -- Ash mentioned how much pressure we're under right now and the uncertainty that we're dealing with.

There is -- I think there's always a lot of motivation in the department and outside the department to get as much into the budget as one can possibly put in and to be optimistic about our outcomes. And what affordability is about is trying to constrain those and be more realistic in our expectations. It's about not starting programs that we can't afford.

So that's -- that was part of 1.0. It was an important part of 1.0. I put it into a separate major bullet here. The difficulty I'm going to have right now, after we've been doing this for about two and a half years now, is to enforce these caps. So we're putting in affordability caps on our programs, the idea being to force the requirements community to sit down with the accusation community and do tradeoffs between cost and capability. And where they have to get down to a cost that we can afford, reduce the requirement to stay within that level.

That's easier to start out to do; it's hard to finish. It's hard to get to the end when people have to give up things that they want, but that's what we're going to have to do if we're going to recapitalize and modernize the force structure that we have. That's what that first one was all about.

Controlling costs throughout the life cycle? One of the things that we've tried to do -- and this shows up later on the list -- is to change our culture a little bit within the Defense Department so that cost becomes a much greater factor in how we do business and how we think about our jobs. I saw a Defense Business Board report the other day that talked about the Defense Department being different than the commercial world in this regard.

And in the rest of the world -- and I've been in the industry; I know what it's like to be out here -- people worry about cost a lot. They try to drive cost out all the time. In the defense world, you get an amount of money, and then your job is to spend that money. It's a very different way to think about what you're -- what you're trying to do.

One of the key initiatives up here, then -- I think it's really caught fire -- it was in 1.0 -- is the idea of should-cost, that our managers need to go out and understand their costs thoroughly, look at all the elements of cost that they're dealing with and determine where they can make reductions in those costs, set targets for themselves and then manage to that -- manage to the cost and try to reduce the cost as opposed to just spending the money and feeling that that's your fundamental mission.

And that goes across almost all of the things that we do. And I think we've made a lot of progress on that, but we're going to reinforce that and continue to do that.

A strong partnership with the requirements community, another one I'll mention, working very closely with the chairman of the Joint Chiefs and the JROC on this that has to happen throughout the services as well. And a lot of these are like that. There's a top-level piece of this, which involves myself and my staff and some of the senior leaders of the department. But a great deal of this goes down through the entirety of the many layers that we have in the department, and that's one of them. That has to happen for the -- (inaudible) -- programs; it has to happen for things beyond products as well.

I want to turn to productivity, innovation and industry and government, mention a couple of things there. One of the things that Dr. Carter and I put out in 1.0 was the idea of using more fixed-price incentive fee contracts. That was a good initiative. But my feeling, and I think Ash would agree with this, is that there was a bit of an overreaction to that. People started thinking that was what they should use all the time and use it for everything. So the guidance here modifies that a little bit and says, use the right type of contract for the job. We have a range of contracts for a good reason.

You know, one place in particular, though, and it's still up there, where we want to use fixed-price incentive more is in early production. It turns out that we're pretty good at predicting the cost of production. We're not nearly as good as that at predicting the cost of development. So there, the risk is inherently higher. It may not be as appropriate to use a fixed-price vehicle. But in early production, it makes a lot of sense. If we're going to overrun by in the average something less than 10 percent, that's well within the window we can cover with a fixed-price incentive fee contract. And that's what we're doing, been doing a lot of that. I think it's paying off for us. We've moved in programs like, say, the F-35, and -- when Ash was leading Acquisition in that direction. And I think it's done a lot to get that program's cost under control.

Best value: One of the things that I've been working with on the services is the idea of defining value. As we go out with a solicitation, let industry know what we're willing to pay for increased performance. Now, I had an experience many years ago where I was trying to sell a product to the government, to the Air Force, which we were absolutely certain was a superior design to our competitors, would give much, much better war fighting performance. And I could not find a way to get my customer to put any credit in the source selection for that value. And then we didn't obviously win the competition because of that; because we were more expensive, we had an inherently more expensive design.

So when we establish threshold requirements and objective requirements, there's no point in putting down the objective requirement unless you're willing to pay a little bit more for it. If all you're willing to pay for is that threshold, then that's all you should ask for.

So what I've worked with the services on is the idea of defining value. This is an impetus to innovation. If industry knows what we're willing to pay for higher performance, then industry has a reason to go out and try to reach that performance and get it to us at a cost that we're willing to pay. So the idea of best value is to reinforce that and to make it clear to industry, so industry can bid and decide how they want to approach a particular product more intelligently.

We've -- one of the areas that we've gotten a lot of feedback from industry on is something called LPTA, lowest price technically acceptable. And after moving in this direction, we've got a lot of feedback that suggests that there are places where this really is not the right vehicle.

The problem is that there are some types of services in particular where it's very difficult to write down an objective standard. The people reviewing proposals need some room to maneuver, to determine value in a more subjective way. And in those cases, LPTA is probably not the right vehicle.

And I'm talking in particular about certain types of professional services, where expertise is really what you're after. And it's hard to assess that in a -- in a purely objective way and then go just to lowest price. And what happens in those cases is we tend to default to the cheapest bidder, independent of the quality of the bid. And that's not the outcome we want. That is not best value for the government. So we're backing off a little bit form the use of LPTA in those cases. And again, people, this is another case where our people out there in the workforce have to use their judgment and decide what's the best way to proceed.

DCAA audits is a long-standing concern of industry. We're working closely with -- and this is one that we had in 1.0 as well -- we're making some progress. I'm a little concerned about -- as our budget's shrinking, as we have to do things like furlough people -- whether we'll be able to continue that progress at the same pace. But we're working closely with DCAA and Pat Fitzgerald, who's the leader there, has been very involved in Better Buying Power and this whole initiative, works with us closely. So we're working to get that backlog out, a lot of benefits to everybody to do that.

Also mentioned up here is the Superior Supplier Program (sic/Superior Supplier Incentive Program), where we're going to start recognizing our better suppliers in industry. And one of the things we could do for our suppliers, if they make a certain category and show good results in their audits consistently, is to reduce the frequencies and the depths of the audits that we do and tie that to their performance -- (inaudible) -- and we're working to initiate that.

Unproductive processes and bureaucracy, I -- waging a continuing war against nonvalue-added activities. It's a harder fight than you might imagine. In a letter I received from AIA with some ideas, they asked me about an item that was in Better Buying Power 1.0 that didn't fit on the -- on the PowerPoint here.

When I put out the initial guidance in November, I did a “what happened to the 1.0 initiative?” That was one of the initiatives that I said we were continuing. It just didn't manage to fit -- get it fitted on the chart. But we will continue to work with industry to identify things that are non-valued-added that we impose on industry that really don't provide any value. And AIA sent me a letter. I think the boards of governors are actually watching this, so I'm -- this is a shoutout to them. We -- I've got your letter, and we're going to react to that. We'll set up a team to work those things with you. But that item has not disappeared at all.

A lot of this is about internal processes. I had a conversation with one of our program executive officers once who said that when he had a multiyear program, he was the most effective program manager he could possibly be compared to any other time in his career because all he had to do was work on this program and work with the suppliers to get more for the money for the taxpayers and for his war fighters. And I thought about that. I took that to heart. The burden that we put on our people to come do things for oversight reasons, while it may not cost that much, and it may not delay programs that much, it takes managers away from something else that they really should be doing. So that's an important thing. We're going to start tracking this. We've going to start tracking how much time our people spend giving briefings to the staff and getting coordination and going around doing the things that they need to do just to work their way through the process and then go attack the things that we can push back on. This will be a collaboration between the secretary of defense's office people and the service people because a lot of this bureaucracy exists in the military departments as much as it does in OSD.

Effective competition. I am a firm believer that competition is the most effective way to reduce cost. And we're continuing something we did. Same emphasis was in 1.0. We're going to continue that. And we will find creative ways. And the idea here, and what we want people to think about here, is creative ways to create competitive environments for industry so that there is a reason for people to work harder to keep the business that they had. You know, Ash mentioned profits. Every speech we ever give on this, I think we talk about profits. We're not trying to take out profits to cut costs, but we don't want to tie profits to performance. And this an area where we can do that. And competition helps us drive down costs as well.

One -- I'll mention this because I think it's important, and it gets back again to the professionalism of our workforce and the requirement to think. It's the assessment of technology readiness. We had a kind of a bureaucratic system that we put in place to assess the readiness of things to move to the next phase.

And as I was reviewing programs, I had a program commend to me that was -- advertises low risk because it had met a certain technology readiness level, had a label on it. And that -- and I was told that we had done competitive prototypes, and therefore the risk in that program was low.

So I asked the engineers to come in and go through the designs for me. And what I found out was that the demonstration part of the phase of the program had done competitive prototypes. It had a TRL assessment, a TRL 6, which is kind of our standard. But that design that was demonstrated was not the design that was going to be developed and produced. There was zero correlation, almost, between the two designs.

And the light bulb went on that what was going on was that industry wasn't trying to reduce the risk; it was trying to get the contract. It was trying to win. And I had Bob Moore, who's a former deputy director at DARPA, a colleague from the past, go out and look at about a dozen programs. And sure enough, this was happening fairly routinely. We were checking the box for a certain label that was had put on things. And we were taking a process and doing something we had said was part of success in terms of reducing risk. We were not looking at the real risk in the product we were going to build.

And industry was responding as you would expect industry to. The motivation for industry is to -- is to win the next contract and get the job. That's what comes first. I was in industry, and that's exactly the way I behaved, and that's what we should expect. So, the lesson of that was that we have to understand more thoroughly and we have to require industry to actually reduce the risk in the product. So that -- that's what that one's about. And like a lot of others here, this is about making sure our people understand thoroughly what it takes to ensure success as a manager programs in the service contracts and so on.

OK. The next category up there is acquisition of services. This is almost lifted from the Better Buying Power 1.0 without many changes. What we're doing here, though, is building on what Ashton and I did in 1.0 and expanding our management of services. We're moving it beyond just the contracting side of this to the management of services. My deputy, who couldn't be here today, is going to be the leader for the department in contracted services, Alan Estevez, if I can ever get him confirmed.

Alan is going to take this on. There is going to be a senior manager in OSD, a senior manager for each of the major categories of service contracting. And they're going to be working to identify with the services and the agencies best practices in each of the different areas of service contracting and implementing policies that go down to that level.

This includes things like information technology services, facilities services, maintenance services and so on, knowledge-based services, et cetera. There are -- (inaudible) -- categories that each is a professional area in its own right, each has its characteristics. So we're going to continue that process. I'm working on a draft DODI that'll -- that -- (inaudible) -- has been working on that'll cover services contracting that's going to go down that path and make those policies more clear. A lot to be done there.

We spend more money on services than we do on products. And if there's a place where I think we can gain greater efficiencies in the department and make major inroads and savings, and I can contribute them to what Ash is now leading for the secretary, that's the place I think we're going to be able to do it.

Professionalism in the acquisition workforce: I've alluded to that as I've gone through these. Establishing high standards for our key leaders, program managers, and chief engineers. Ash mentioned the list generally. Contracting people, of course; logistics support; lifecycle-support people and testers as well.

These people that run either a program or a major portion of a program or a multi-billion-dollar service contract have huge responsibilities and they need to be qualified for that job. They need to be prepared for it. They need to develop the skill sets, get the education, get the training, get the experience. A lot of this is the right experience.

We have a system in -- within our workforce, which is a little bit of a kind of check-the-box system for DAWIA categories of hierarchy, if you will, of professional levels, which doesn't go far enough. We need to strengthen that and we need to make sure that people who are labeled ready to take on one of these major key leadership positions truly are. It's not fair to them to put them into a position that they're not prepared to take on.

Cost consciousness: a cultural thing. I mentioned it earlier. We're going to close with that. In the climate we're in today, there is nothing more important for us. Getting -- you know, I delayed ruling this out a little bit. I initially announced it in November. We worked for a few months on it. We went past the first of the year. It became pretty apparent we were headed for sequestration after that. It was a difficult time for the department. We're now into implementing sequestration.

There's no reason to stop doing our job, and there's every reason in the world to do it better, OK. We have less resources to work with now, the cuts that we're taking are hugely inefficient. Ash alluded to that. We are -- you know, we didn't have a cyclone or a hurricane arrive the day sequestration was implemented. What happened was the rain started to fall. And it's still falling, and the water's rising, and that's what we're dealing with.

I read the -- weekly, we get a summary of the things we're doing because of sequestration. And if you read that list, there're some things on there that you kind of shake your head and say, well, that's not -- you know, if the Blue Angels can't fly this weekend at the Naval Academy graduation, that's not the end of the world. But if I can't repair the runway, then I have an increased chance of FOD damage on the runway. If I can't buy any furniture to put into the building I just paid for, and therefore I have to stay in leased space longer. If I can't do the maintenance on my major end-items; if my units aren't training, these things add up.

And what we're essentially doing right now is taking a huge number of inefficient actions; all of our investment accounts in production are coming down in terms of quantities to less economic quantities. All of our research and development accounts are being stretched out; less efficient production of our research and development profiles. We're carrying more overhead longer. Because of that, basically, the fixed costs go on longer.

All of this is inefficient. All it is, is the opposite of what I'm trying to accomplish here. And that's going up, and that water keeps rising. And if Ash's scenario plays out, we're going to go into a very similar situation in FY '14, which I think -- I've used the word "devastating" before. I'm not going to back down from that. That's the sort of impact this is having on the department.

In any event, more pressure than ever on us to get as much value as possible for the money that we have, and that's what our workforce is dedicated to doing and will continue to do. And a big part of this is to ensure that they have the knowledge base and the tools and the freedom to do what they need to do, and they're empowered to do what they need to do.

So, thank you very much for your attention, and I'll be happy to take a few questions.

Q: Mr. Secretary, I guess I'll start and other folks can get their questions ready. The department has made a number of legislative proposals as part of their submission for the FY '14 National Defense Authorization Act. Yesterday afternoon, the department posted on the Office of Legislative Affairs website the proposals for limiting executive compensation on cost-type contracts to $400,000, which is the president's current salary level. So, essentially, what the department is proposing to do is limit reimbursement for compensation at one level of -- or one element of compensation that's essentially set for an elected official in the political process.

There are some folks that are concerned about the ability of the industry with that sort of limitation and the downward pressure on cost generally over time to be able to continue to attract the talent both on the technical side as well as the management side. Could you comment on that and how you see that in relationship to what you're trying to do in better buying power?

MR. KENDALL: (Off mic.)

MR. WINCUP: No, this actually came from the Department of Defense.

MR. KENDALL: (Off mic)

MR. WINCUP: No, no. This was **–** (Off mic)

MR. KENDALL: (Off mic) -- I'm not aware of -- (off mic) -- in general, we have -- yeah. In general we have a -- you know, a free market, a market that's a competitive market that supports us. And industry has to compete for talent in that market. You know, they need engineering talent, they need management talent, et cetera, and they have to go out and compete with the commercial world.

And I think if we're going to have high-quality people in the defense industry, they need to be competitive. So I'm going to have to take a look at that and see where we are. May be a result of an attempt to compromise with a more stringent restriction that Congress was going to put on that I was aware of, or at least was discussed in Congress at one point.

MR. WINCUP: (Off mic) – There are a number questions about the British idea or concept that they were considering about changing their acquisition approach to a government-operated or a government-owned, contractor- operated, the questions revolve around how that's going to interface with the U.S. on existing programs that the U.S. and U.K. are involved in, how FMS will work and generally how -- what do you see -- think about it?

MR. KENDALL: Yeah, I've been aware of this for some time. Bernard Gray is my counterpart in the U.K. and he and I have been discussing this for about three years now, ever since I met him. He has a slightly different situation and a different -- well, he has a similar situation in some ways, but I think it may be more severe, and he has a different solution to the problem.

He's concerned about his organic capability to manage programs and how that has atrophied in the U.K. -- management talent, technical talent and so on. And his solution to that, and it's more quantity than it is of people who he has to do the things he needs to do. So his solution to that -- which has been proposed; there's not been a decision yet in the U.K. on this -- is to hire someone to help him with that job, bring in a commercial entity of some type. It may look a little bit more at the end like FFRDC than an actual, you know, normal business.

But in any event, he wants to basically hire management talent to help him manage his defense programs, which puts contractor people essentially in a role that traditionally might have been filled by government people. So we're going to have to work through how that happens. I'm very aware of this. I suggested to Bernard about a year ago -- several months ago, that we put together a joint team to go try to figure out what problems would arise because of this, because there are certain things that need to be government-to-government, and identify those.

So that team's been working for a while. I do not think, at the end of the day, that this will be a major impediment for us. It's just a problem we're going to have to go figure out how to solve. And there are certain roles where I think the U.K.'s going to need to put government people in to do -- make certain types of arrangements in cooperation with the United States, for example, where it needs to be government-to-government and we don't want it to be government to contractor.

But that's a work in progress. I -- we're not have any disagreement about this or his path. The path I've chosen is to try to strengthen our existing workforce. I think we have a lot of talent in our workforce, but I want to build on that and make it stronger. People, at the end of the day, and leadership, just as in an operational unit, are more important than anything else for success. All these policies are nice, but people are what really make a difference.

And so I'm taking a slightly different path than he is. He has reason to go in the direction he's going in. He's thought about it very carefully. We're going to work together to make it work, is the bottom line.

Q: Mr. Secretary, you mentioned that LPTA has been a very controversial issue and you've heard a lot from industry about it. Do you have any comments as to how you intend to deploy the approach that the department tends to take on LPTA contracts, as you further clarify what "technically acceptable" means, how that will get out to the field and what process folks will understand -- (inaudible) -- policy issue.

MR. KENDALL: We're writing some additional guidance for people. There's some general guidance in the implementing memoranda, but many jobs are suitably LPTA.

If I want somebody to cut my grass, for example, I can specify what that means in a fairly objective way and I can hold someone responsible for that when they do it. I just want the cheapest firm that's going to cut the grass to my specification. But if I want specialized advice in a very specific area, what I really care about is the talent that is offered to me and I have to judge that somewhat subjectively in a source selection.

So for different types of work it's easier. And the guidance to the workforce is, don't use LPTA if you can't define an objective standard to measure successful performance. It's too hard to implement that. The concern comes out of a lot of people who are out there and feel that they have built up expertise in a certain area and don't know how to get credit for that in a source selection. I think there's some merit to that argument for some types of work and that's why we're changing the guidance.

MR. WINCUP: (Off mic) -- partners seem to have a number of questions of you. And one in particular is what's your view on the role non-U.S. defense companies could have in reducing costs, promoting innovation and providing DOD access to mature, ready-to-use technology? Do you have any general guidance that you're outlining -- or you're indicating in this regard? And there was sort of a further refinement of that -- given all that, explain how cutting the foreign cooperative testing program makes sense?

MR. KENDALL: On the latter subject, the cooperative test program, we're in a situation where we're not cutting anything that we don't want. We're cutting things we do want. It's just which things -- you know, what's the least bad thing to do. So that's a good program. It's an important program. But as we look at all the other things we have to do in past budgets, it had to come down a little bit.

I very much believe in competition. That includes allowing our partners to have foreign firms that our – for our partners to bid for things. We do fair competitions here. And we're open to sources from -- often in partnership with U.S. firms, but we're open to bids from our partners, particularly our closest partners, and we'll assess them fairly and objectively. And we have some cases in point where people have reacted to the appearance of things. I'm thinking about the tanker competition right now. We have other cases where -- you know, I'm thinking now about the light attack competition the Air Force did recently, where it's quite clear that we're willing to go with foreign suppliers.

I like competition, and I think there is now a global marketplace out there. We don't have a monopoly on technology, we don't have a monopoly on good ideas, and we're open to competitors. We've had to -- in an area that's related to that, we've had to make some of our source selections more open to other people and releasing information to other people in order to make that happen, and we've kind of pushed back on that.

This is an area, by the way, where industry needs to talk to us, OK? If you see something that is restricted in some way and you think that's inappropriate and you want to let us know about that, please do, because there are times when people do that more than they should, frankly.

MR. WINCUP: One of the -- over time, a number of different rapid-reaction, rapid equipment programs and accounts have been set up, and many of those have been proven to be good sources of innovation and acquisition. How do you see those accounts being integrated into some of the things you want to do, especially on the affordability side and better buy parts you point out?

MR. KENDALL: That leads into a fairly -- this is going to be a little longer discussion than the question would suggest. I'm concerned about the health of the industrial base as we take significant cuts. In particular I'm concerned about our research and development base. And the way we're taking cuts in the department right now, largely because of the uncertainty, which -- Ash talked about this, but first of all, sequestration and the cuts associated with sequestration happened very quickly. There's no phase-in of those cuts. It's boom, $50 billion. We took 40 billion (dollars) this year. If we go into '14 and we're looking at sequestration in '14, which politically certainly looks possible, it's a $50 billion hit.

And we're sitting here not knowing. One of the reasons the uncertainty is such a problem for us is we don't know what force structure to design the department around. We don't know what ultimate level of budget we expect to be at. Everything else that we do flows from force structure. You know, once you have a force structure, then you need a certain level of money to keep it running, to keep the people trained, to keep the equipment ready to operate. Then you need a certain level of money to modernize that force structure and to recapitalize it as it wears out. So it all flows from the force structure. And when the department gets out of balance and we have too much force structure for the other accounts to support, bad things start to happen.

One of the bad things is readiness crisis. I lived the readiness crisis of the '70s in Germany. I was in a unit that had no spare parts, and we were essentially non-operational for parts all the time. You can have a readiness crisis because of training, too. You can stop training. You know, we're doing too much of that right now. You can have a readiness crisis because you didn't invest in technology or you can have a hollow force because you didn't invest in technology that you needed to stay technologically superior. So you have to have a balance, but the balance flows from an understanding of what your force structure is.

So as we go into '13, through '13 into '14, if we don't have a good feel for where we're going to end up, we're going to be tempted to hang on to force structure rather than let it go and then have to try to get it back later. Well, if you have to take $50 billion out and you can't – A. you can't get it out fast out of force structure, because it takes a while to get the people out, and you want to hang on to the force structure anyway because you're not sure where you're going to end up, the place you're going to pay for that $50 billion tends to be the investment accounts, to a certain extent readiness, but you can only take so much out of readiness. We're still engaged in Afghanistan.

So we get a disproportionate hit. And you see this in our FY '14 submission, I think. You know, what happened is, under the Budget Control Act -- actually it's in the '13 submission -- R&D and production dropped pretty precipitously. Production recovered to a large extent over the five years. R&D did not. So I'm worried about R&D, what's going to happen there.

One of the things we can do is something that's kind of related to the rapid acquisition idea. It's the idea of rapid prototyping. It's a way to hedge against an uncertain future. But we're not going to be able to afford to do an awful lot of that. It's a way to protect the industrial base and do things.

Now, it's going from our standard acquisition processes to something which is more like, say, the MRAP program, which I think is also implied in that. The MRAP program is a very interesting program. It shows how we can do things quickly of a certain type. The MRAP is essentially -- took a number of commercial components, mostly from trucks, essentially, and put them together into a new package that we could field very quickly.

And then once we -- you know, we did a lot of them in a hurry. Now, that's a different job than a cutting-edge new fighter or a cutting- edge new missile system, which is a very intricate, complicated design which extends our capability. There is nothing technologically sophisticated particularly about MRAPs, right?

But if I'm going to stay ahead of a peer competitor out there or anybody out there who's challenging me -- and there are people who are challenging us in military technology today, challenging us very effectively, I would add -- we're going to have to go to designs that are complicated and take longer to do.

We took -- I've taken a hard look at whether or not -- and I have a number people looking at this from different perspectives. But if you look at the data on how long it takes us to do things, over the last 20 years we've added about nine months to a year to our time in development, which is not as much as many people think. There are exceptions, where some programs have taken a very long time. But on the average, we haven't added that much time. Now, that may be due to complexity. It may be due to other factors. That's something we're going to have to do some more work on to try to understand. And I would like to get the cycle time down.

One of the things we're trying to do in 1.0 and carrying on still -- I don't remember if it's on the chart or not; I think it is -- is to reduce cycle times continuously. So we're looking for ways to do that. But we got to get a deeper understanding of what actually is causing those cycle times. Is it -- you know, is it our processes, how we do milestone approvals and the documentation associated with that? Is it how long it takes to get a requirement approved? Is it the amount of testing we're doing? So we're going to have to dig deeper in order to get at that problem.

OK?

Q: It's a bit of a -- it's a follow-on to what you were just talking about, but it talks more about the -- using recent guidance that you've talked about a pilot program using a skunkworks type approach to whatever elements you think's appropriate --

MR. KENDALL: Yeah, let me -- let me comment on that. That's -- did that make the list? It did. I've got about 50 other things -- (chuckles) -- that are on the list that I'm doing. I'm not sure if everything's up there.

The idea of a skunkworks is a -- there's a long history of this. It goes back, I think, to the '60s originally, and even before that, shortly after World War II. Kelly Johnson's a famous name in the defense industry if you look at the history of defense acquisition. And he was the first leader for Lockheed at the Skunk Works.

The idea in its essence is that you have very small professional teams on the government side and on the industry side. You have a fairly well-defined requirement, and you have people that work very closely together to go develop a product that meets that requirement. And that team is empowered. It works, again, very closely with a set of rules by which they operate. And there's a fair amount of trust involved in the organization that does that. That's a little different than the way we do business today, right?

The idea is to try to do something like that. Now, if you're going to do that -- and I'd like -- I've asked each of the services to propose a program that they would like to take that kind of approach with. And what I would do is relieve them of many of the formal documentation requirements, with all the staffing that goes with that that we do today, and instead use intense on-site reviews by -- first by the staff and then by myself and the SAEs, service acquisition executives, for the milestone decisions. We simplify that process enormously, and we focus on the substance of what's being done. And we have people doing it who really do understand it.

What I need as a criterion to have this kind of a program, first of all, is an assurance that both sides, the government and industry, will have a truly professional team, that the requirements are well- defined and that those teams work together. So I'm going to be looking a resumes of people from both sides. I want people who really understand the work.

The where -- where you get trust in an arrangement like this is from that understanding, because both sides really know what's the right thing to do. They know what needs to be done to get the product developed, tested and fielded. So there's no -- you know, nobody's worried about the other guy doing something that doesn't need to be done or no fooling around. It's right into the nuts of the design -- nuts and bolts of the design and the process to test out the -- and prove out the product.

So I think this is an experiment worth trying. And if we can have some successes with it, we may be able to broaden it.

But it's related to that last major bullet there about improving the professionalism. If we have people who are just, you know, doing a checklist -- and I'm -- and I -- my earlier discussion about the TRL levels and having had comparative prototypes goes right at this. If I had had a skunkworkslike quality team and a -- and a government industry side, that would not have happened, OK? We would have had a test of the -- tests and demonstrations of technology that actually reduce the real risk on the program, because both sides would have understood exactly what it took to do that. And that's what I have to have to make that work.

It's also going to be a program that entails some risk and is probably in a cost-plus environment because of the close interaction that's necessary between government and industry. If you have a fixed-price environment, essentially, the government has defined a specification, turned it over to industry and let industry go ahead and do the best to do the job. It's simplifying it too much, but that's the basic idea.

So that's the idea of the skunkworks. I think it's something to aspire to. I think it's worth experiment. If we could have some successes, then people who are successful at it will get to do more of it. And I think, you know, in the end, it could be a very, very efficient way to do work. But it's dependent upon those criteria that I talked about.

Q: The concerns that many in industry have had is how well the companies or the trade associations stay engaged with the process of implementing and deploying the results of the Better Buying Power work that will be going on over in the department.

Some of the areas that will be addressed in this new effort will fall into areas that are already covered by the FAR or the DFARS. Other areas you've already got existing guidance. And so I guess there's a general question. What can industry look forward to in terms of engagement or the opportunity to comment on proposals, whether it be through a public rule-making process or some other method?

MR. KENDALL: That'll vary by the initiative. Most of these have some specific actions associated with them. So we'll continue the dialogue. I interact with individuals from industry constantly. Brett Lambert, who's here, is my lead for industrial base relations, basically, or he's manufacturing industrial base policy, has a -- very strong connections within industry. The service acquisition executives all do.

We will organize some ways to have a more structured way to get at some of these. Some of them will be DFARS changes that will go out for comment. Others will be documents that we'll give to industry to give a chance to comment on as more, you know, general policy guidance as opposed to specific directives, like a DFAR.

So we'll continue to engage with industry, and if industry has ideas about how to expand that, how to make it more effective, I'd be happy to hear them.

Q: (Off mic) -- Secretary, you mentioned the selected acquisition reports that you're sending over today with no Nunn- McCurdy breaches. Congratulations.

Several people have asked a question about what metrics are you using to judge these various initiatives that you have.

MR. KENDALL: That's a terrific question.

I am -- I'm -- (chuckles) -- I've been talking about this report I've been producing for about a year and a half now, and I think people are tired of me saying things about it. But one of the things that I found, coming back into government three years ago, was that it was time we started measuring our own performance. And I've been working to put together a body of data -- I have a sign outside my door that says: In God we trust; all others must bring data -- so that we can start to actually look in the mirror and see how we're doing.

I used to ask the question that -- as I talked to different groups of acquisition people, can anybody in the audience tell me how well we're doing today, compared to how well we were doing five or 10 or 15 years ago? Nobody ever knows the -- knew the answer.

I think it's time we started measuring it. It's not -- if you don't know where you are, it's kind of hard to tell how to get to where you want to go.

So we'll be looking at the obvious things first. We have the SARs, and they're a basis for a lot of data on original baselines and know where we ended up. We also have a lot of data from the federal procurement data system on contracts. And if we start out to do development of a certain program, how much money we end up adding by the time we get the contract completed and that sort of thing, and what kind of changes we do.

We're finding -- I've seen a couple of very good studies on past performance that have gone into excruciating detail on what actually happened in a program, often by going back and interviewing people who were there when decisions were made, to try to understand why the decision was made, which is often a very big part of the equation.

So we'll look at top-level metrics of cost and schedule performance relative to initial plan. That tells us how well we're executing our plans, essentially. It doesn't tell us what we should have done.

We'll also look at policies and what effect policies have on results. And there's many variables, as I mentioned earlier, in the acquisition business that it's very hard to pull out and correlate specific things. And a good example is fixed-price contracting. Does fixed-price contracting get you better results or not? The answer is, it depends. It depends on what phase of development you're in and what kind of work you're doing. Do some kinds of products, it seemed, inherently have poorer performance, poorer results? The answer is yes. C3I programs don't do very well, for example, compared to others. Do some of the services do better? Do some of the buying commands do better than others?

And this isn't about pointing fingers at people or blaming people. It's about understanding what works, so that others can emulate that and do it.

So my long-awaited report -- I've got a stack of data about, what -- Katrina (sp), about that thick? --

STAFF: (Off mic.)

MR. KENDALL: -- that I'm trying to get into a format that I like and get that out to everybody to look at and think about, because it's going to be something that's going to be very thought-provoking. It doesn't tell you the answers. It tells you much more than you know right now about what's really happening.

The next step in this -- and this'll be updated annually -- as we get more insights and we collect more data and become more knowledgeable of what really is affecting what, we'll look at things like Nunn-McCurdys and what's happening to Nunn-McCurdys over time -- you know, cost and schedule and performance changes over programs. We'll look at whether we're passing operational tests or not. We'll look at how many programs did we start and then kill. You know, those are the sorts of things that are going to be in this.

We start -- you know, one of the reasons that first bullet up there on affordability's there is because we've started too many programs and then shot them, usually because we got far enough down the road that we figured finally we couldn't afford them. You know, that's why now we're going back. So we're learning from our experience there. There are lots of other opportunities.

We'll look at industry. We'll look at how some -- are some firms consistently better at delivering products as they promise they will than others. And that'll shed -- that'll be of interest, I know, to industry, to see how they're doing on that. So we're moving in the direction of trying to measure that.

For each of these specific things, we haven't tried to come up with a specific one for each of these. Some of them probably lend themselves more to that than others. But it's something that's worthwhile for us to take a look at.

Q: Sorry, what -- as far as the -- in the various initiatives, what thought is being given to incent greater participation by the commercial sector in DOD acquisition as budgets draw down and we can take advantage of investments made in the market and through other sources?

MR. KENDALL: Now, there are some sectors where commercial technology is moving very quickly. And you know, one of the things we can do to make it easier for people to get into defense businesses by salvaging open systems and open standards. That's mentioned up there.

One of the areas where we're doing something like that is our tactical radios. We have had a long, troubled program for a long time called JTRS, Joint Tactical Radio Systems, which I spent the first couple of years I was back in the Pentagon working with Heidi and with others to try to get those on track. And I think we've gotten to a point now where we recognize that for some of those products, industry had done some investing on its own, and it actually, you know, had come up with products that were competitive, that would meet our requirements, and that we ought to give people the chance to build those products. So we're going to a more commercial-like acquisition strategy for some of those products.

So where there are opportunities like that, we're very open to them. But commercial electronics, particularly in the RF domain, is one area. In the information systems area in general -- and a good example of that is the combat system on the Virginia, which is largely an open architecture using commercial products. So that's one of the ways that we can bring competition, of course. It's also a way we can get much cheaper products, at least at that level. Maybe -- I'm not going to get a commercial fighter plane, but some of the things I'd put in the fighter plane may be commercial.

Q: This question has a judgment inherent in it, but I'm going to ask it the way it was posed, because it does raise an interesting question. How do you optimize your industrial base when you have little or no control over the government depots?

MR. KENDALL: Over the government --

Q: Depots.

MR. KENDALL: Depots provide a lot of value to us, OK, and there's a reason to have some organic ability to do certain things, maintenance, mostly, and upgrades.

You know, it's a very sensitive political subject. Right now, with the situation we're in the department, we are looking at creative ways to try to save money and to have more competition. We're not allowed to have competition, I think, under the law, between the depots and the commercial world at that moment. I don't know that we're going to go so far as to try to take that one on politically. It's something we should think about. There's a very strong caucus, as you're well-aware, that supports the depots, since -- anybody in the room, I think, is well-aware.

And we do need some capacity there. So the question is what's the right balance. I think we need to be sure that our depots are giving us value, and we need to have competition where we can. But I'm not sure that we can move very far away from the situation we have right now in terms of the balance.

Q: (Inaudible) -- to what extent are the Better Buying Power 2.0 initiatives and their expected outcomes or other acquisition initiatives that you might be looking at as follow-on influencing or informing the Strategic Choices and Management Review?

MR. KENDALL: We are looking at seeing things in this Strategic Choices and Management Review to improve efficiency. Ash and I were together at a meeting just before we came over here looking at some of those. You know, as the original Better Buying Power was part of, you know, Secretary Gates' efficiency initiatives, this is a continuation of that. Where we can identify savings, we will.

What I think will come out of this work, though, is a little different than that. Our average development program for an ACAT 1 program overruns by about 30 percent. Our average early production lots for most of our ACAT -- major programs overrun by about 10 percent. That's not in our budget, OK? And if we can just get to where that doesn't happen, OK, we can avoid a lot of problems we're going to have downstream. Our budget does not assume overruns in our programs. It's -- that's a built-in problem for us if we don't address it. I don't expect to be perfect, in development in particular, but I think we can do better in both of those areas.

On the services side, I think there are some things we can do on the services side to improve efficiency and drive down the cost. We did put some assumptions about that into earlier budgets. Ash and I worked that together, and then I worked it after he moved up to the deputy's position. So we may be able to do some things in the IT area, for example, where we can see some efficiencies.

I don't think anyone should fool themselves that if we take $50 billion a year out of the future budgets that there's a free lunch in there somewhere. We've -- we're at the end of -- I'm just back in government three years. I walked into the Pentagon in March of 2010, after having been gone for about 15 years, and very shortly after that Secretary Gates made the Abilene speech that Ash talked about. We -- he and I sat down and said, you know, this is serious business; we've got a big part of this; let's get to work.

The Better Buying Power 1.0 initiatives came out of that, as did a whole host of things that were not part of, you know, Better Buying Power that the department did to improve efficiency. You know, we did some consolidations, closed some organizations.

We went through another exercise when we took $50 billion a year out after the Budget Control Act was imposed to try to get efficiencies. There's not a lot of fat left in the Defense Department budget, where -- easy places to cut.

And I mentioned earlier that, you know, we're not making choices of things -- you know, which thing would we like to have that's on the margin don't we want. We're not cutting anything at this point in time. You know, we're getting rid of -- we're doing the least worst things, OK? I'll put it that way. You know, that's the kind of choices we're having to make now.

And you mentioned foreign -- earlier question on Foreign Comparative Test -- good program. I got a lot of good programs. I got a lot of things I'd like to invest in. We're more in the position of a business that has all these things we could do to build products and to make money and improve efficiency, but they all require up- front investments.

You know, a good example of that is BRAC. BRAC requires some up- front investment, and you know, you get a good return on that. We put a BRAC proposal into our '14 submission. We put one in our '13 submission, and it got a very warm reception from the Congress. (Scattered laughter.) We put it into our '14 submission, and the first time around, we didn't assume any savings, and we didn't assume any costs. We just asked for the authority to do it. The second time around, in '14, we did assume some savings, but we put in the costs to try to get those savings. If you look at the return on the first few rounds of BRAC, it was very high. The last round is not really representative of all of what can be done in BRAC, the '05 round, I guess. The rounds before that got a great return on investment. But we need some cooperation from the Congress if we're going to go down that path. There are a few others like that.

But we're not able to make some of those up-front investments to get reductions later on. We don't have the capital. We don't have access to the resources to do that. So it's unfortunately a situation in which we can't make all the up-front investments that we could to save money, even some of the best ones. It's just not a good situation for us to be in.

MR. WINCUP: Close to the end of the time that you're available, so maybe we should end this or get close to ending it with one that has an accolade, at least to start, in the question. Support your --

MR. KENDALL: I'm in favor of that, Kim. That's a good idea. (Laughter.)

MR. WINCUP: Agree and support your position on the LPTA, and then the points they would like to make is how are you getting the word out to your workforce that whoever this individual still sees it being used as the first choice in service acquisition, even being used in -- even also being used in cost-reimbursable contracts?

MR. KENDALL: I have a major task, and my service acquisition executives have a major task, and contributed -- and Jim and the rest of the time have a major task of communication. And I -- there's continuity from 1.0 here, a lot of continuity. There's some change here. And there's an equal -- a recognized lesson, I think, from 1.0 was the importance of communication. And I'm going to be getting out and talking to the workforce. My key leaders are going to be getting out and talking to the workforce. We're going to be putting guidance out to people. We're going to be doing things at DAU, at the university, Defense Acquisition University, to train people, partly because a lot of this is on giving people tools and guidance so that they can use their judgment.

Communications is crucial. And the DOD -- just the acquisition part of DOD is a vast enterprise. It's huge. As all these different organizations, many, many layers as you go through the hierarchies. You know, I mentioned the PEO, PM, SAE chain up there, something we're emphasizing for the major programs. But most people aren't involved with those. Most people are working somewhere in one of the buying commands or maybe on an installation, they're contracting for some work. They're a lot of layers away from the senior leadership. And we really need to make sure we communicate at all levels. And anything like this that involves change, clear communication is hugely important, and it just requires continuous reinforcement and tenacity to make people -- sure that people get the message.

So there's a huge job to doing that. We're well-aware of that, and that's -- you know, the follow-up is what matters here. It's not announcing these things or putting out the policy. It's the follow-up to get out to the people and make sure they really understand what you intend for them to do and how to do it. So it's a good one to end on.

MR. WINCUP: (Audio break) – Thank you very much for, first of all, just the dialogue, that -- your willingness to conduct this dialogue. It's enormously beneficial. We appreciate your coming to CSIS to do it. And we thank you for what you're doing in your service to the government, and particularly in this -- this is so important to the budget, what you're doing. So thank you very much for being with us today, sir.

MR. KENDALL: Thank you, Kim. Thank you, everybody. (Applause.)

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