DoD Press Briefing Underscores Important Acquisition Reform Initiative

Secretary Perry, Dr. Kaminski Address the Acceleration of Bringing Common Processes to Contractor Facilities

COLLIE J. JOHNSON

Acquisition reform again surfaced as one of the Pentagon's top priorities during a December 8, 1995 DoD Press Briefing. Secretary of Defense William J. Perry, flanked by Under Secretary of Defense for Acquisition and Technology, Dr. Paul G. Kaminski, announced a new policy designed to implement a single process initiative that, as designed, will ultimately lead to the use of common processes and performance specifications on existing DoD contracts. The initiative comes as good news for Defense and industry as both downsize and seek innovative ways to produce and procure the most cost-effective, technologically superior weapons for the modern warfighter.

Real Acquisition Reform

Referring to the Federal Acquisition Streamlining Act (FASA) of 1994 as an integral legislative vehicle for acquisition reform, Perry commented:

> When I came to the Pentagon in 1993, one of my most important initiatives was to achieve real acquisition reform...The real objective of acquisition reform is to allow the Defense Department to buy products (weapon systems), not only at lower cost, but also to get higher-quality products because we have access to the most modern technology.

Perry then affirmed his confidence that this objective could be achieved because, "We had the support of the President, the Vice President, and strong support in Congress. And we knew it was important because we needed a savings in acquisition in order to rebuild the modernization program."

Addressing the issues of cost savings and cost avoidance, Perry said that we also need better access to commercial industry because we cannot afford the cost of a separate defense industrial sector nor the missed opportunities of the technological advances being made every week throughout the commercial defense industry. He expressed his confidence that the successes DoD has experienced to date in acquisition reform will continue on into the future.

DoD Specifications and Standards Reform

Perry believes that his DoD Specifications and Standards Reform memorandum of June 1994 was a major step forward in acquisition reform. By mandating the use of performance specifications and standards, we encourage innovative contract management. He stated, however, that because that direction affected only new contracts, the DoD recognized the need for an initiative that addresses existing contracts, where we [DoD] can realize near-term savings that can affect acquisition programs in the immediate future. "Our principal acquisition reform initiatives in this area thus far were focused on *new* contracts. This single process initiative is significant in that it impacts existing contracts."

Defining the Need

Currently in many contractor facilities several different processes or specifications may be used for similar manufacturing or management operations due to differing requirements in various contracts. This approach is inefficient, leading to increased cost and administrative workload for both the contractor and the government. Over the last year, several initiatives moved toward changing this situation. Participating in these efforts were the non-Government Standards Integrated Process Team, sponsored by the Joint Logistics Commanders and the Common Process Facility Working Group, co-chaired by OSD's Director, Test, Systems, Engineering and Evaluation; and the Commander, Defense Contract Management Command. In August of this year, members of these organizations and the OSD staff, principally the Office of the Deputy Under Secretary of Defense for Acquisition Reform, began working together to draft the single process initiative policy.

Referring to the inefficiencies resulting from dissimilar manufacturing or management operations, Perry emphasized that we must learn to "piggyback off of what is being done on the commercial side and consolidate the processes that are used by the Defense Department."

Johnson is Managing Editor, Program Manager, DSMC Press.

With this initiative, and starting now, Perry stated that DoD will seek to reduce the number of processes used. "However," he cautioned, "in real life, reducing the processes is more complicated because the contractor may have a Navy contract for one type of plane, an Air Force contract for another type, and an Army contract for a missile."

Herein lies the compromise, according to Perry – to seek to modify the contracts as a block, not simply contract by contract, modifying all contracts at once in a given facility, to consolidate the number of processes, thus eliminating all but one. (The figure depicts an overview of this Block Change Process.) He is optimistic this can be done on a streamlined basis, and cautions that the longer it takes, the longer we will continue to incur the cost of duplicate and unnecessary processes, specifications, and standards.

Wrapping up his presentation, Perry summarized the changes that will be effective with the issuance of the new single process initiative:

- We will be able to consolidate processes on existing contracts.
- We will attempt to modify the contracts as a block, not contract by contract.
- We will do this on a streamlined basis in order to get the savings as soon as possible.

How Do We Proceed?

Introducing Dr. Paul G. Kaminski, Under Secretary of Defense for Acquisition and Technology, Perry turned the briefing over to Kaminski who proceeded to outline the "nuts and bolts" of how we [the professional acquisition workforce] can expect to change our way of doing business as a result of the single process initiative.

Reiterating Perry's assertion that implementation of the single process initiative policy requires a streamlined approach, Kaminski emphasized that we can and will "get it done quickly so we can begin to benefit from the associated savings and cost avoidances sooner rather than later."

Our goal is to consolidate or eliminate multiple management or multiple manufacturing processes when they're not needed. These multiple manufacturing processes add unnecessary cost to the goods and the services that are purchased by the Department.

Basic Objectives

"This morning I signed a memo,[1]" stated Kaminski, "promulgating implementation guidance to proceed with this program with the idea of achieving four basic objectives in the process:

- Quick implementation, for the reasons stated above.
- Obtain consideration when there are one-sided savings in the process. That is, when we make a modification to a contract that results in savings to be accrued to the contractor, and it's a fixed-price contract over a long period of time, we want to ensure the government benefits in the savings; we want to go back into those situations and seek consideration.
- Minimize the cost of implementation. We could go through a very cumbersome procedure to implement this change in those cases where we see that the savings will be dual-sided. That is, the government will benefit, for example, in a cost contract where the cost avoidance taken by the contractor will be passed on directly to us. We see no need for a cumbersome process that would add expense or delay in implementation.
- We want to protect the interests of the principal stakeholders in this process – the individual program managers who may be affected, and the individual program teams who are operating in a given facility."

Referring to the Integrated Product Team approach, Kaminski stated that we will be using the approach to make a block change for modifying the specifications and standards for all existing contracts on a facility-wide basis, rather than on a contract-by-contract basis. The real issue here, according to Kaminski, is that it's not feasible to make a contract-by-contract change for a facility that has many contracts; that we must try to go through a set of common processes across the whole facility.

"Our goal is to consolidate or eliminate multiple management or multiple manufacturing processes when they're not needed. These multiple manufacturing processes add unnecessary cost to the goods and the services that are purchased by the Department."

Added Requirements Cost Big

To illustrate the cost of added contract requirements and associated costs, Kaminski cited specific examples. Referring to a Coopers & Lybrand study, commissioned by the DoD about a year back,[2] he cited examples of added costs of requirements associated/imposed by the DoD on our major contractors – costs above what would be imposed by normal commercial practice.

The Coopers & Lybrand study looked, for example, at one military standard

Block Change Process

The block change process depicted in the figure designates DCMC as the lead facilitator to implement plant-wide changes. The process is built on existing structures within the components and OSD and is designed to create a sense of urgency in the approval process for streamlining of specifications, standards, or other processes.

Proposal Development

Industry is encouraged to prepare and submit concept papers for streamlining specifications and standards with emphasis on early customer involvement and interface. Once the cost and benefit of the change has been determined through this early involvement, industry shall submit block change proposals. A definitive concept paper is also acceptable. As a minimum, the proposals should detail the proposed processes and associated metrics, rough order of magnitude cost benefit analysis, the consequent changes in government's involvement in the process, and required regulatory/contractual changes.

Approval

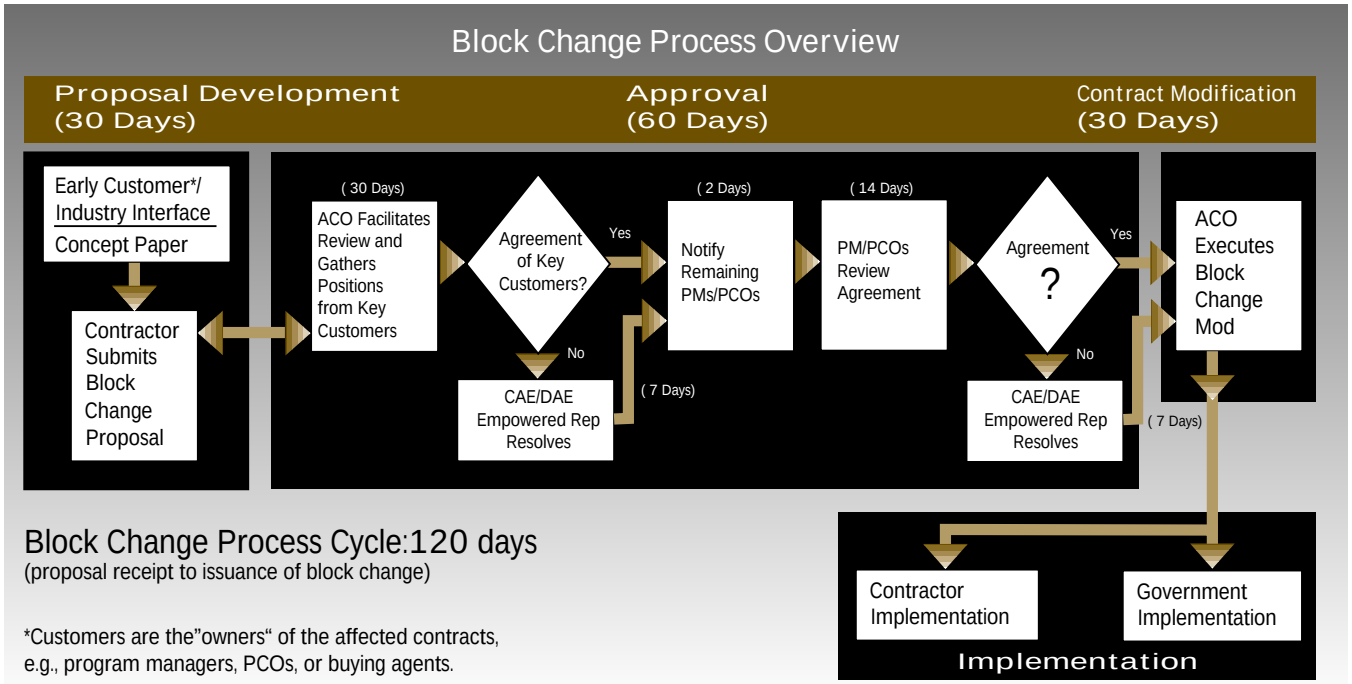
Following submittal of the proposal, the Contract Administration Office (CAO) shall determine the contractual/regulatory scope of change, confirm the component customer base impacted and, if required, organize a local management council based on the nature of the proposal. The management council should be comprised of senior-level representatives from the local CAO, the cognizant Defense Contract Audit Agency (DCAA) office, the contractor, and subject matter experts representing the key customers within the affected components. Notionally, the key customer base shall be comprised of customers who represent 80 percent of the total dollar value of affected contracts.

Roles and Responsibilities

The role of the management council is to analyze the merits and cost benefits of the change. Empowerment of subject matter experts from the key customer base is critical. To minimize delay, a component team leader should be designated and granted decision authority by the CAE to represent the key customer base. Component team leaders are responsible for achieving consensus with other component team leaders, the key customer Procuring Contracting Officers (PCO) and PMs, the component team members, and the CAE. The CAO should be responsible for facilitating and leading the management council. The ACO will have the contractual authority to execute all block changes. The figure shows the decision process along with timelines expected of this streamlined process.

Internal Government Resolution Process

The objective of this process is to resolve disagreements, facilitate consensus, quickly elevate and resolve issues of substantial concern, and reemphasize the overall goal and objective. If there is disagreement between PM or other customers within a component, the issue must be raised to a level within the service as designated by the CAE. If there is disagreement among the components, the issue must be raised to a level within the Department as designated by the DAE. Once resolved, the ACO executes the change.



Block Change Process Cycle:120 days
(proposal receipt to issuance of block change)

*Customers are the"owners" of the affected contracts, e.g., program managers, PCOs, or buying agents.

– MILQ 9858A (a particular quality standard used by the DoD), and found that the contribution of that standard caused a cost premium of doing business with the DoD of about 1.7 percent of the cost of items purchased by the Department in the facilities that they serviced. "When looking at the overall costs of a procurement budget of over $40 billion per year," he noted, "that's a pretty significant number."

Coopers & Lybrand also looked at materiel management and accounting systems imposed by the government, and found this too to be a major contributor to cost, adding about six-tenths of a percent to the Department's cost. In one facility, for example, Coopers & Lybrand found that the government was requiring the same parts to be stocked in 15 different locations, because of multiple contracts, each with their own requirements. This obviously drove up the stockage levels of parts required, added to obsolescence and deterioration problems; and created the kind of inefficiencies we want to avoid.

Another example of what's broken that we're trying to fix, according to Kaminski, is in the area of soldering specifications. One contractor facility is required to use eight different soldering specifications - five for the government and three for commercial purposes. (These specifications are for similar types of products.) This means personnel doing the soldering and those inspecting it must be trained on all the different techniques involved. Production documentation also differs for the different processes. Empathizing with the contractor's difficulties in managing such a confusing array of specifications, Kaminski stated that, "It's very difficult to streamline a manufacturing process across a facility in this environment. If we can consolidate to one or two major specifications, manufacturing personnel can become more proficient, the inspection requirements and the paperwork can be reduced, and we can, where possible, leverage off the commercial process."

A Period of Transition

Kaminski cautioned his audience that there is going to be a period of transition – this might be a year, maybe a year-and-a-half – in which there will be costs of transitioning to a new process base. "We don't know enough today to predict whether in the short term, there's going to be a net savings or a small cost. Whatever is going to happen in the short term is going to be small...there will be some costs during the transition period." Kaminski believes, however, that savings will eventually accrue to the contractor, who will avoid cost of multiple manufacturing processes, and for most contracts we have in place, there will be bilateral savings. The savings will be passed directly to the government and in the end to the taxpayer.

According to Kaminski, he sees that happening with cost reimbursable contracts in those situations where we have options that have been priced; where we can go back and readdress those options. In the case of longer-term, fixed-price contracts, with the possibility of unilateral savings (savings to the contractor but not to the government because of the fixed-price structure based upon our cost analysis), we will look at making adjustments to those contract prices in that unilateral case.

Kaminski stated that the focal point for this activity will be the administrative contracting officer assigned to the Defense Contract Management Command (DCMC), which is located in the contractor's facility. They will follow a process that will include the streamlined review and the adoption of contractor's proposals to proceed with this initiative across the whole facility. This doesn't mean, according to Kaminski, that the customers – the program managers and the buying activities – won't be involved. Our local DCMC activities will use management councils to include the involved program managers and other customers as well as our Defense Contract Audit Agency to review contractor proposals related to elimination or consolidation of these requirements. Only when there is agreement on the extent of the change will the administrative contracting officer execute the block changes to the contracts for that facility.

"We intend for this to be a streamlined approach," he commented. "We will not spend months having detailed cost proposals prepared, audited, and negotiated unless the initial review by an administrative contracting officer indicates that the possibility exists of substantial, unilateral savings after the contractor transition costs and the government administrative costs are considered.

Kaminski expects the number of these unilateral savings cases to be minimal, and does not want to unnecessarily overburden the system with them.

In Conclusion

Summarizing his remarks, Kaminski stressed the need for direct and immediate action on the single process initiative. "The longer it takes us to implement this, the longer we will bear the cost of inefficiency on these separate processes. In my opinion, we want to move very quickly to get on with it to see if we can't begin to reach closure in our projected year to a year-and-a-half time frame.

Editor's Note: Kaminski concluded his remarks with a brief question-and-answer session. The questions and his responses appear on pp. 10-11.

ENDNOTES

1. The memorandum Kaminski is referring to appears on pp. 4-5 preceding this article.

2. Kaminski is referring to a study conducted by Coopers & Lybrand for the Department about one year ago to determine what the added costs of requirements, either associated or imposed by the DoD on our major contractors, cost the taxpayer over and above what would be imposed by normal commercial practices.