



This slide deck is intended to serve as the kick-off/introduction for the Mission Assistance Effort entitled: "Achieve Stable and Economical Production Rates."

Background: A "Rapid Deployment Training (RDT)" effort was initiated to provide a general overview of the five overarching "Thrust Areas" which in-turn encompass 22 specific Better Buying Power Initiatives (BBPI), included on the "Guidance Roadmap (next slide). Of the 22 specific initiatives, 14 have been broken out to comprise an initial set of Mission Assistance Modules that may be presented to Program Management Offices, or other organizations, on an ad-hoc basis.

Many of the initiatives are inherently complementary. In particular, this one, entitled: **"Contributing Factors to Achieving Stable and Economical Production Rates"** is no exception. More specifically, it focuses on production planning with an emphasis on Joint Supply Chain Architecture, Funding stability, Contracting approach (e.g. Multi-year, advance procurement, options, dual sourcing), Operational Requirements, Contractor capacity (e.g. Personnel, tooling, shifts...), Accurate estimating, Requirements stability, Use of process improvement methodologies, such as Continuous Process Improvement, Lean/Six Sigma, and Total Ownership Cost, and Support and sustainment requirements... To name a few!

Recommended Approach: It is anticipated that this module, including these introductory charts, will be used to facilitate and instill critical thinking that will result in the establishment of processes that effectively and efficiently address the various facets of achieving Stable and Economical Production Rates.



## Notional Agenda

Better Buying Power Initiatives (BBPi) Mission Assistance Module: "Achieving Stable & Economical Production Rates"		
Minutes	Block Title	Block Description
0-50	"Training Camp"	Introductions and why we're here
50-60		-Break-
60-110	"Game Plan"	Identify factors for consideration
110-120		-Break-
120-210	"OTA" (Organized Team Activity)	Application of tools & Critical Thinking
210-220		-Break-
220-240	"Chalk-Talk"	Recap and plan forward

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Most likely the sponsor will want some time upfront to identify some specific goal and sell the basic approach.

Make adjustments as necessary.

Around the room introductions may also be appropriate.



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## Guidance Roadmap

<b>Target Affordability and Control Cost Growth</b> <ul style="list-style-type: none"><li>- Mandate affordability as a requirement</li><li>- Implement "should cost" based management<ul style="list-style-type: none"><li>* ARA memo 12 Dec 2011 – Should-Cost Templates</li><li>* AT&amp;L memo 24 Aug 2011 – Should-Cost and Affordability</li><li>* AT&amp;L memo 22 Apr 2011 – Will Cost/Should Cost</li><li>* USA SAAL_ZR memo 10 June – Army Implementation of USD (AT&amp;L Affordability Initiatives)</li><li>* USAF memo 15 June 2011 – Implementation of Will-Cost and Should Cost Management</li><li>* SECNAV ASN-RDA memo 19 July 2011 – Implementation of Should Cost Management</li></ul></li><li>- Eliminate redundancy within warfighter portfolios</li><li>- Achieve Stable and economical production rates</li><li>- Manage program timelines</li></ul>	<b>Promote Real Competition</b> <ul style="list-style-type: none"><li>- Emphasize competitive strategy at each program milestone</li><li>- Remove obstacles to competition<ul style="list-style-type: none"><li>• Allow reasonable time to bid</li></ul></li><li>* DPAP memo 27 April 2011/24 Nov 2010 – Improving Competition<ul style="list-style-type: none"><li>• Require non-certified cost and pricing data on single offers</li><li>• Enforce open system architectures and set rules for acquisition of technical data rights</li></ul></li><li>- Increase small business role and opportunities<ul style="list-style-type: none"><li>* DPAP memo 14 Jul y 2011 Use Government –wide Acquisition Contracts Set Aside Exclusively for Small Business</li><li>* DPAP memo 27 June 2011 Increase Dynamic Business Roles in the Defense Marketplace</li></ul></li></ul>
<b>Incentivize Productivity &amp; Innovation in Industry</b> <ul style="list-style-type: none"><li>- Reward contractors for successful supply chain and indirect expense management</li><li>- Increase Use of FPIF contract type</li><li>- Capitalize on progress payment structures<ul style="list-style-type: none"><li>* DPAP memo 27 April 2011 – Cash Flow Models</li></ul></li><li>- Institute a superior supplier incentive program</li><li>- Reinvigorate industry's independent research and development</li></ul>	<b>Improve Tradecraft in Acquisition of Services</b> <ul style="list-style-type: none"><li>- Assign senior managers for acquisition of services<ul style="list-style-type: none"><li>* Senior Manager's appointed similar to AF PEO (Army Nov 2010/Navy Jun 2011)</li></ul></li><li>- Adopt uniform services market segmentation (taxonomy)<ul style="list-style-type: none"><li>* DPAP memo 23 Nov 2010 – Taxonomy for Acquisition of Services</li></ul></li><li>- Address causes of poor tradecraft<ul style="list-style-type: none"><li>• Define requirements and prevent creep</li><li>• Conduct market research</li></ul></li><li>- Increase small business participation<ul style="list-style-type: none"><li>* DPAP memo 14 Jul y 2011 Use Government –wide Acquisition Contracts Set Aside Exclusively for Small Business</li></ul></li></ul>
<b>Reduce Non-Productive Processes and Bureaucracy</b> <ul style="list-style-type: none"><li>* PDUSD AT&amp;L memo 14 Sept 2011 – Document Streamlining-Life-cycle Sustainment Plan</li><li>* PDUSD AT&amp;L memo 18 July 2011 – Document Streamlining-Program Protection Plan</li><li>* PDUSD AT&amp;L memo 23 June 2011 – Improving Milestone Process Effectiveness</li><li>* PDUSD AT&amp;L memo 20 April 2011 – Document Streamlining-Program Strategies and SEP</li><li>- Reduce frequency of OSD level reviews<ul style="list-style-type: none"><li>* AT&amp;L memo 11 May 2011 – Improving Technology Readiness Assessment Effectiveness</li></ul></li><li>- Work with Congress to eliminate low value added statutory requirements</li><li>- Reduce the volume and cost of Congressional Reports</li><li>- Reduce non-value added requirements imposed on industry</li><li>- Align DCMA and DCAA processes to ensure work is complementary<ul style="list-style-type: none"><li>* DPAP memo 4 Jan 2010 – Align DCMA and DCAA</li></ul></li><li>- Increase use of Forward Pricing Rate Recommendations (FPRRs) to reduce administrative costs<ul style="list-style-type: none"><li>* DPAP memo 4 Jan 2010 – Align DCMA and DCAA</li></ul></li></ul>	<b>Related Memos/DTMs:</b> <ul style="list-style-type: none"><li>* AT&amp;L memo 8 Dec 2011– Value Engineering (VE) and Obtaining greater Efficiency &amp; Productivity in Defense Spending</li><li>* PDUSD AT&amp;L memo 19 July 2011– Roles &amp; Responsibilities of the OSD OIPT Leaders, Teams and Team members</li><li>* AT&amp;L memo 23 June 2011– DTM 11-009 – Acquisition Policy for Defense Business Systems</li><li>* AT&amp;L memo 21 March 2011– DTM 11-003 – Reliability Analysis, Planning, Tracking and Reporting</li><li>* PDUSD AT&amp;L memo 24 Feb 2011– Expected Business Practice: Post Critical Design Review Reports and Assessments</li><li>* OMB memo 2 Feb 2011 – "Myth Busting"; Addressing Misconceptions to Improve Communications with Industry during the Acquisition Process</li></ul>

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This slide shows the 5 thrust areas along with the 23 initiatives at the first indenture level; note that the red sub bullets indicate associated implementing policy memos.

This module: "Achieve Stable and Economical Production Rates" is highlighted.

NOTE: The asterisks to the right of the specific bulletized initiatives and sub-initiatives indicate a Mission Assistance Area (to include some that combines), as note below:

### Initiative Title

1. Mandate Affordability (1.1)
2. Will Cost/Should Cost (1.2)
3. Elim. Portfolio Redundancy (1.3)
4. Stable/Econ Prod Rates (1.4)
5. Shorter Program Timelines (1.5)
6. Reward Supp. Chain/Ind. Cst Mgmt (2.1)
7. Where Approp, Incr FPIF Contract Use (2.2)
8. Capitalize on Progress Paym'ts (2.3)
9. Emphasize Comptve Strat (M/S) (3.1)
10. Remove Competition Obstacles (3.2)
11. Open Sys Arch/ Tech Data Rights (3.2)
12. Address Causes of Poor Tradecraft (4.3)
13. Increase Small Business (3.4/4.4)
14. Reduce Low Value Industry Req'm'ts (5.3)



## Achieve Stable and Economical Production Rates

Why we are here...

### **Schedule Delays \* Economic Decline \* Budget Overruns**

- GAO: “Production Issues” cited as a causal factor in 22% of Nunn-McCurdy Breaches (1997-2009) [GAO Report GAO-11-499T)].
- 296 Billion Dollars in DOD Cost Overruns: 2009 GAO Weapons Systems Assessments
  - Cumulative cost overruns are almost \$296 billion in 2009 dollars
  - 64 of 96 active defense programs reported increases in their projected cost since their initial cost estimate.

This chart reflects GAO supporting data for what OSD/AT&L found, and is in part the basis for their subsequent response to via the initiatives:

- Funding instability due to changes in quantities being acquired
- Lack of application of improvement methodologies such as Continuous Process Improvement, Lean/Six Sigma, Reduction of Total Ownership Cost, etc.
- Lack of planning for Diminishing Manufacturing Sources and Material Shortages (DMSMS) and long lead items
- Lack of focus on production planning and Joint Supply Chain Architecture
- The nature of the “Production Issues” were not specified within the GAO Report (GAO-11-499T)



## So Why are We Here?

### Gates Seeks Sharp Turn In Spending

#### Defense Budget Focuses On Lower-Tech Weapons

By CHRIS JAFFE and SHARLAGH MURRAY  
Washington Post Staff Writers

Defense Secretary Robert M. Gates outlined sweeping changes to the defense budget Monday that would shift hundreds of billions of dollars in Pentagon spending away from elaborate weapons toward programs more likely to benefit troops in today's wars.

The proposal by Gates amounts to a radical change in the way the Pentagon buys weapons. For decades, the United States has spent trillions of dollars on weapons programs that strove for revolutionary leaps but often were delivered years late and billions of dollars over budget. In proposing his 2010 budget, which is likely to face stiff resistance from Congress, Gates emphasized

#### RESTRUCTURING DEFENSE PRIORITIES

The 2010 budget proposed by Defense Secretary Robert M. Gates would:

- Accelerate the purchase of F-35 fighters.
- Cut off production of Lockheed Martin Corp.'s F-22 fighter jets at 187, four more than the current number.
- Restructure missile defense programs to focus on rogue states and defenses aimed at protecting troops in the field.
- Cancel Lockheed Martin's VH-71 presidential helicopter.
- Cancel a \$1.5 billion competition for new Air Force search-and-rescue helicopters.
- Slash the Army's \$1.59 billion Future Combat Systems, by eliminating funds for replacements for 72-ton tanks and Bradley Fighting Vehicles.
- Buy 31 more F/A-18 fighter jets built by Boeing.
- Cancel the \$2.6 billion Transformational Satellite program.
- Increase the Special Operations force by 2,800 troops.
- Spend \$2 billion more on intelligence and surveillance programs used heavily in Iraq and Afghanistan.
- Add \$500 million to increase the number of helicopter maintenance crews and pilots in Afghanistan.
- Spend \$1.1 billion to pay for the increase in the size of the Army and Marine Corps.

the Pentagon, Gates acknowledged that he would probably face opposition from lawmakers eager to protect jobs in their districts. "My hope is that members of Congress will rise above parochial interests and consider what is in the best interest of the nation as a whole," he said.

Gates demanded unrecanted

said in a statement. The cuts will undoubtedly be painful for communities such as Marietta, Ga., where about 2,000 Lockheed Martin workers assemble the F-22. The program employs about 25,000 people around the country, said Rep. Tom Price (R), whose Georgia district includes the

Source: The Washington Post, p. A1, 6 April 2009

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Again, this is just another representative sample of what we are facing: Production quantities are in constant flux.

As an aside, although higher production numbers are generally thought to offer a lower price, this presentation show or remind participants that consideration of Economic Production Quantities (EPQs) requires consideration of more than just quantity.





## Achieve Stable and Economical Production Rates

**Background:** In his first year as the Under Secretary of Defense for Acquisition Technology and Logistics (Dr. Ashton Carter) noticed limited productivity across DoD, to include:

- Production Cost continued to increase for the same item over time
- Noted that Small Business was not constructively engaged
- Requirements were generated without consideration of cost or affordability

This is the heart of what we are looking to address.

Note that it is consistent with the GAO Report cited earlier.

It is also clear that working this Mission Assistance Module in conjunction with others may be a prudent approach. In particular, it appears that the use of a Fixed Price Incentive type contract may help to bridge the gap from the uncertain costs accumulated in the developmental efforts, while at the same time incentivizing efficiencies that will ultimately result the opportunity to lock in at the lowest possible Fixed Price arrangement. Likewise, inclusion of Small Business will aid in maintaining an eye toward innovation and competition.



## Actions ongoing or planned by OSD/AT&L and CAEs

- **Introducing affordability requirements into programs further into development or production selectively**
  - Establishing economic order quantities and economical production rates
  - Defining production rate change limits based on affordability assessments and production capabilities
- **Present Affordability Analysis at Milestones A and B**
- **Production Rate Range approved at Milestone C**
- **Deviations from limits require USD(AT&L) approval prior to implementation or submission with component POM**
- **Expanded Requirements Management training**
  - Requirements “creep” in capabilities or quantities can disrupt production rates

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## USD AT&L Expectations

- “Government and industry both benefit from economic order quantity (EOQ) rates of production, and from stability in production year after year. Unfortunately, quantity cutting and turbulence to meet budget targets is widespread. Production rates are a critical part of any acquisition strategy approved by me. Therefore, beginning immediately, **I will expect production rate to be part of the affordability analysis presented at Milestones A and B.** Furthermore, at Milestone C, I will set a range of approved production rates. Deviation from that range without my prior approval will lead to revocation of the Milestone.”
- “**I expect to see a 5 percent annual increase in the number of ACAT ID and IC programs executing at their EOQ level.**”

*Excerpts from USD AT&L Better Buying Power Initiatives*

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USD AT&L expectations are clear:

Production rates are an inherent part of any Program affordability analysis.

Programs should execute at their EOQ level.