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ACQUISITION, TECHNOLOGY AND LOGISTICS

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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Implementation Directive for Better Buying Power – Obtaining Greater Efficiency and Productivity in Defense Spending

As detailed in my September 14, 2010 Guidance to acquisition professionals, I am seeking to obtain greater efficiency and productivity in defense spending by pursuing initiatives in the following five areas: (1) Target Affordability and Control Cost Growth; (2) Incentivize Productivity and Innovation in Industry; (3) Promote Real Competition; (4) Improve Tradecraft in Services Acquisition; and (5) Reduce Non-Productive Processes and Bureaucracy.

This memorandum specifies actions that I expect you to execute either immediately or in the time frame indicated in order to implement the September 14 Guidance. Additional actions in support of these five initiatives will be developed over the next few weeks and months.

TARGET AFFORDABILITY AND CONTROLLING COST GROWTH

Mandate affordability as a requirement:

Effective November 15, 2010, I will implement affordability-based decision making at milestone decision points for all Acquisition Category (ACAT I) programs. Specifically, I direct the following actions:

Baseline Portfolio and/or Mission Area Definitions: As a basis for affordability analysis, you will use standard budget categories to the extent possible. Representative examples include: tactical wheeled vehicles, tactical aircraft, surface combatants, and communications satellites.

Milestone (MS) A: You will establish an affordability target to be treated by the program manager (PM) like a Key Performance Parameter (KPP). This affordability target (initially, average unit acquisition cost and average annual operating and support cost per unit) will be the basis for pre-MS B decision making and systems engineering tradeoff analysis. This analysis should show results of capability excursions around expected design performance points to highlight elements that can be used to establish cost and schedule trade space. The affordability target should be presented in the context of an analysis of the resources that are projected to be available in the portfolio(s) or mission area(s) associated with the program being considered for the MS A decision, assuming programmed defense budgets and force structures. In order to meet this requirement, you will provide a quantitative analysis of the program's portfolio or mission area across the life cycle of all products in the portfolio or mission area, including acquisition and operating and support budget suitability to absorb the proposed new start as a content change. Specifically, if introducing a new program into a portfolio or mission area, you should indicate what specific adjustments will be made to absorb the new program.

Milestone B: You will present a systems engineering tradeoff analysis showing how cost varies as the major design parameters and time to complete are traded off against each other. The analysis will pay due attention to spiral upgrades. You will recommend for my approval to establish and document, in the Acquisition Decision Memorandum (ADM) and in the program baseline, an 'Affordability Requirement' for acquisition cost and for operating and support cost. This requirement will be the functional equivalent of Key Performance Parameters (KPPs) for baseline establishment and monitoring. You will provide cost tradeoff curves or trade space around major affordability drivers (including KPPs when they are major cost drivers) to show how the program has established a cost-effective design point for these affordability drivers.

By November 15, 2010, you will provide me with a schedule that charts when you will establish affordability as a requirement for ACAT II and below programs for which you are responsible.

Drive productivity growth through Will Cost/Should Cost management:

Effective November 15, 2010, you will establish "Should Cost" targets as management tools for all ACAT I programs as they are considered for major MS decisions. As described in my September 14, 2010, Guidance to the acquisition workforce, "Should Cost" targets will be developed using sound estimating techniques that are based on bottom-up assessments of what programs should cost, if reasonable efficiency and productivity enhancing efforts are undertaken. These costs will be used as a basis for contract negotiations and contract incentives and to track contractor and program executive officer/project manager performance. Program performance against "Should Cost" estimates will be reported to the Office of Acquisition Resources and Analysis through Acquisition Visibility Service Oriented Architecture (AV SoA).

By January 1, 2011, you will establish "Should Cost" estimates for ACAT II and III programs as they are considered for component MS decisions. You will use "Should Cost"-based management to track performance of ACAT II and III programs.

Eliminate redundancy within Warfighter portfolios:

You will conduct portfolio reviews for selected ACAT II and III programs under your management to identify and eliminate redundancy. Beginning March 1, 2011, and annually thereafter, you will provide me with a one-page report on the selection of portfolios for review and the results of these reviews.

Make production rates economical and hold them stable:

By January 1, 2011, you will provide me, for each of your ACAT I programs, a one-page description of how the procurement rate and schedule were set, with reference to Economic Order Quantity (EOQ) and the affordability target set at MS A, as adjusted at MS B. As a central component of this investment plan, you will define production rate change limits based on the MS A or B affordability assessments mentioned above. Program deviations from these limits, including those intended in budget adjustments, will require my review and approval prior to implementation or submission with component Program Objective Memoranda (POMs).

Set shorter program timelines and manage to them:

Effective November 15, 2010, you will include a justification for the proposed program schedule as part of the cost tradeoff analysis at MS B to support affordability. This justification will be part of the ADM authorizing the program to proceed. Deviation from the schedule established at the most recent MS without my prior approval could lead to revocation of the MS.

INCENTIVIZE PRODUCTIVITY AND INNOVATION IN INDUSTRY

Reward contractors for successful supply chain and indirect expense management:

Effective November 15, 2010, you will include the incentive strategy behind the profit policy, including consideration of breakout alternatives where appropriate, in all acquisition strategies for all ACAT ID programs. By January 1, 2011, you are directed to establish the same requirement for all other programs over which you have acquisition authority.

Increase the use of Fixed-Price Incentive Firm Target (FPIF) contract type where appropriate using a 50/50 share line and 120 percent ceiling as a point of departure:

Effective immediately, you will give greater consideration to using Fixed-Price Incentive Firm Target (FPIF) contracts, particularly for efforts moving from development to production. In the past, acquisition teams have moved frequently from cost reimbursement contracts for development efforts and early production lots to Firm-Fixed-Price (FFP) for production efforts without adequately considering the use of FPIF contracts.

Effective immediately, you will provide a justification for the contract type used for each proposed contract above $100 million for ACAT ID programs. Effective immediately, you will also similarly review the contract type chosen for all contracts for more than $100 million under other ACAT levels.

I expect acquisition teams to pay particular attention to share lines and ceiling prices, and FPIF contracts with a 120 percent ceiling and a 50/50 share ratio should be the norm, or starting point. Effective immediately, you will implement this Guidance for all programs under your immediate direction and direct your PEOs to do the same.

Adjust progress payments to incentivize performance:

Effective January 1, 2011, you will identify pilot programs to use innovative financing methods as a negotiating tool. To assist in this effort, I have directed the Director, Defense Procurement & Acquisition Policy (DPAP) to immediately develop a cash flow model and to provide guidance for the use of a preferred hierarchy of innovative financing methods described in the model that takes into consideration the lifecycle phase of weapon system programs. Emphasis should be placed on flow-down provisions to subcontractors as well.

Extend the Superior Supplier Incentive Program (SSIP) to a DoD-wide pilot:

DPAP will establish a Superior Supplier Incentive Program (SSIP) based on the Department of the Navy's program pilot, effective January 1, 2011.

Reinvigorate industry's independent research and development and protect the defense technology base:

Effective immediately, you are directed to support the Director, Defense Research & Engineering (DDR&E), whom I have tasked to reinvigorate the Independent Research and Development (IRAD) program and create other incentives for industry to conduct more defense-relevant R&D. This task includes enhancing the Small Business Innovation Research (SBIR) program to promote the role of small business in supporting DoD IRAD needs.

PROMOTE REAL COMPETITION

Present a competitive acquisition strategy at each program milestone:

Effective immediately, you will provide a one-page competitive strategy for each ACAT ID program at each milestone as part of the overall acquisition strategy. By December 1, 2010, you will require a competitive strategy to be included in the acquisition strategy prior to each milestone for ACAT IC, II, III and IV programs under your management. You will also report to me on how you intend to reduce single-bid competitions. At a minimum, your report will address market research, restricted specifications, and adequate time for proposal preparation. I expect you to achieve a two percent reduction in single-bid competitive contracts in Fiscal Year 2011, with continuing reductions thereafter.

Remove obstacles to competition:

You will ensure that by November 15, 2010, your contracting officers conduct negotiations with all single-bid offerors unless this requirement is specifically waived by the Head of Contracting Activity (HCA) or yourself. The basis of these negotiations will be cost or price analysis, as the case may be, using either certified or non-certified cost or pricing data, as appropriate.

You will direct your component or agency competition advocate to develop a plan to improve both the overall rate of competition and the rate of effective competition by December 1, 2010. These plans will establish an improvement rate of at least two percent per year for overall competition and an improvement rate of at least 10 percent per year for effective competition.

- ***Require open systems architectures and set rules for acquisition of technical data rights:***

Effective November 15, 2010, you will conduct a business case analysis, in consort with the engineering tradeoff analysis that will be presented at MS B. The business case analysis will outline the open systems architecture approach, combined with technical data rights the government will pursue in order to ensure a lifetime consideration of competition in the acquisition of weapon systems. The results of this analysis will be reported in the Acquisition Strategy Report and in the competition strategy.

Increase dynamic small business role in defense marketplace competition:

Effective December 1, 2010, all competitive and non-competitive procurement actions will seek to increase small business participation through weighting factors in past performance and in fee construct.

IMPROVE TRADECRAFT IN SERVICES ACQUISITION

Create a senior manager for acquisition of services in each component, following the Air Force's example:

By November 15, 2010, you will provide me with an implementation plan with relevant milestones to establish a senior manager for the acquisition of services at the general officer, flag, or SES level. This senior manager will be responsible for governance in planning, execution, strategic sourcing, and management of service contracts. The senior manager will be the decision authority for services acquisitions valued at less than $250 million.

Adopt uniform taxonomy for different types of services:

Effective immediately, you will use the existing Product Service Code (PSC) categories contained in the Product and Service Code Manual maintained by the General Services Administration, Federal Procurement Data Center, and Office of Management and Budget as the basis for collecting data on and managing services contracts.

Address causes of poor tradecraft in services acquisition:

- ***Assist users of services to define requirements and prevent creep via requirements templates:***

By January 1, 2011, you will standardize the method by which you acquire services through the development and use of standard templates in developing Performance Work Statements to improve contract solicitations. You will coordinate with the Director, DPAP and other CAEs to ensure a consistent approach across DoD.

By December 1, 2010, you will develop a plan to strengthen and improve the use of market research in order to understand industry's capabilities and pricing strategies.

- ***Enhance competition by requiring more frequent re-competes of knowledge-based services:***

By January 31, 2011, you will conduct a review of the length of time knowledge-based services contracts within your agency or component are scheduled to remain in effect before re-competition occurs and report the results to me. Single-award actions should normally be limited to three years (including options). I specifically exempt Federally Funded Research and Development Center (FFRDC) contracts and University Affiliated Research Center (UARC) contracts from this three-year policy given the strategic, long-term nature of their contracts and their unique relationship with the Department. By March 1, 2011, you will provide me with a plan to bring knowledge-based services contracts within your agency or component into closer compliance with the three-year general limitation.

- ***"1-bid" proposals:***

In cases where "1-bid" proposals are received, you will require pricing and cost data as appropriate. In addition, solicitations receiving only 1-bid, and which were open to industry for less than 30 days, are to be re-advertised for a minimum period of an additional 30 days unless a waiver is obtained from the Head of Contracting Activity (HCA). This directive is to be implemented no later than December 1, 2010.

- ***Limit the use of time and materials and award fee contracts for services:***

I will issue further detailed guidance for establishing taxonomy of preferred contract types in services acquisition, but starting immediately, you will ensure that services acquisitions under your control are predisposed toward Cost-Plus-Fixed-Fee (CPFF) or Cost-Plus-Incentive-Fee (CPIF) arrangements when robust competition or recent competitive pricing history does not exist. This practice will be used to build sufficient cost knowledge of those services within that market segment. You will employ that cost knowledge to inform the "Should Cost" estimates of future price and contract type negotiations. When robust competition already exists, or there is recent competitive pricing history, you will ensure that services acquisitions under your control are predisposed toward Firm-Fixed-Price (FFP) type contract arrangements. FFP should also be used to the maximum extent reasonable when ongoing competition is used in Multiple Award Contract scenarios.

- ***Require services contracts exceeding $1 billion contain cost efficiency objectives:***

Effective immediately, you will ensure that services contracts valued at more than $1 billion contain provisions in the contract to achieve productivity improvements and cost efficiencies throughout the term of the contract.

Increase small business participation in providing services:

Effective January 1, 2011, DoD components will seek opportunities to compete Multiple Award/IDIQ contracts among small businesses.

REDUCE NON-PRODUCTIVE PROCESSES AND BUREAUCRACY

In accordance with the OSD tasking, you should seek to reduce non-productive processes and bureaucracy in your acquisition process.

By November 15, 2010, you are to complete an assessment of all internal reviews to ensure that they focus their purpose on the major acquisition investment decisions to be made by your component and the Department.

By March 1, 2011, you should review all component- required acquisition documents for redundancy with OSD-required documents and eliminate redundant documents and non-value-added content. You should ensure that such documents are focused on content needed to make Component- level decisions.

You are to conduct a bottom-up review of all internally-generated reporting requirements. You are to assess the value of the reports with a goal to eliminate at least 50 percent of the reports and substantially shorten the ones remaining. In addition, effective immediately, you are to assign reasonable page count caps (based upon the nature of the information requested) when you assign lead responsibility for report production.

DoD Regulatory System: This directive and guidance are effective immediately. All applicable DoD Directives and other related issuances shall be updated to implement this direction and guidance within 180 days.

Ashton B. Carter

cc:
All CAEs
DCMA
DCAA
DCMO