

# DSMC Hosts Second PEO/SYSCOM Commanders' Workshop

## Integrating Across the Life Cycle

LEON REED

**N**early 450 industrialists and representatives of the DoD acquisition, logistics, test, budget and finance, and science and technology (S&T) communities met April 3-5 at the Fort Belvoir, Va., campus of the Defense Systems Management College (DSMC) for the Second Annual Program Executive Officers'/Systems Command (PEO/SYSCOM) Commanders' Workshop.

This year's workshop provided the strongest integrated life cycle view ever discussed at these conferences. Specific breakout groups addressed the entire life cycle from development and integration of new technologies and systems through support of mature, fielded systems.

### PEO Series Initiates Optional Tutorials

Previous PEO/SYSCOM conferences and workshops have all taken place over a two-day period. This year, workshop organizers decided to add four parallel tracks of tutorials on the afternoon before the official start of the conference. These tutorials allowed conference organizers to address important topics that otherwise would not be addressed at the conference.

In particular, the tutorials provided a forum for overview presentations on several DoD programs and processes (e.g., Working Capital Fund; Planning, Programming, and Budgeting System (PPBS); Reducing Total Ownership Costs (R-TOC); and economic/industrial assessments) that have an important impact on the systems acquisition process.



Front row, from left: Air Force Brig. Gen. Frank J. Anderson Jr., DSMC Commandant; Donna Richbourg, Principal Assistant Deputy Under Secretary of Defense (AR); Stan Soloway, Deputy Under Secretary of Defense (AR); and Dr. Jay Mandelbaum, Office of the Assistant Deputy Under Secretary of Defense for Systems Acquisition.

The four parallel tracks covered several acquisition-related topics:

#### Track 1 — Acquisition Policy and Practice

- The acquisition workforce and the role of acquisition support teams throughout the life cycle (Marty Evans, U.S. Air Force Career Management and Resources Division, and David Franke, Air Force Materiel Command).
- Modification management and evolutionary acquisition (Air Force Maj. David Snyder, Air Force Materiel Command, and Air Force Maj. Ross Mc-

Nutt, Air Force Acquisition Management Policy Division).

#### Track 2 — Defense Industry Initiatives

- Lessons learned and best practices in the Reducing Total Ownership Costs (R-TOC) program (Leon Reed, Institute for Defense Analyses, and Michael Novak, Office of the Secretary of Defense [OSD] Strategic and Tactical Systems).
- Secretary of Defense (SEC-DEF) Corporate Fellows, Observations from Industry (Army Lt. Col. Keith Armstrong, Navy Capt. Steve Enewold, Air

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Dr. Sheila Widnall, Institute Professor, The Massachusetts Institute of Technology, and former Secretary of the Air Force. Widnall addressed the conference on the subject of "Acquisition Reform: Where We've Been and Future Challenges."



**“DoD is very far from dealing with the defense industrial base using commercial practices. There are few opportunities to ‘win’ no matter what increases in ‘value’ are provided to the warfighting customer; and there are few opportunities to ‘fail’ no matter how ineptly a defense program is carried out.”**

—Dr. Sheila Widnall  
Former Secretary of the Air Force



"Introduction and Discussion of Breakout Groups." Panel members from left: William Mounts, Director of International and Commercial Systems Acquisition; Louis Kratz, Assistant Deputy Under Secretary of Defense (Logistics Architecture); Brad Gale, Director for Customer Initiatives, Lockheed Martin Aeronautics Company; Lee Frame, Deputy Director for Conventional Systems, Operational Test and Evaluation; Robert Tuohy, Director for Plans and Programs, Defense Research and Engineering; Dr. Joseph Ferrara, Deputy Director, Acquisition Systems Management; and Richard Sylvester, Assistant Deputy Under Secretary of Defense (Systems Acquisition).

Force Lt. Col. Brenda Johnson, Air Force Lt. Col. Darren McDew, Navy Cmdr. Burt Palmer, Marine Col. Arthur Sass, and Eric Briggs, Director, SECDEF Corporate Fellows Program).

**Track 3 — Budget And Finance**

- A PPBS Primer (Siobhan Tack, DSMC).
- Defense Working Capital Funds — how they work and the differences

among the Services (Jeffrey Bennett, Logistics Management Institute).

**Track 4 — Industrial Stewardship**

- Mergers, Acquisitions, and Foreign Investment — implications for the acquisition manager (Victor Ciardello, OSD Director of Financial and Economic Analysis).

- Strategic Planning for Industrial Capabilities — the role of the acquisition manager (Martin Meth, OSD Director of Industrial Capabilities and Assessments).

essments).

With no previous experience presenting tutorials at this conference, conference organizers hoped that as many as 125 people would attend one or more of the tutorial sessions; actual attendance more than doubled this estimate. Post-conference feedback was overwhelmingly positive.

Buoyed by this favorable response, organizers plan to include tutorial presentations as an integral part of future PEO/SYSCOM Commanders' conferences and workshops.

## Introduction to Breakout Groups

Although the plenary sessions provided an opportunity for conference attendees to gain insight into current DoD acquisition policies, practices, and procedures, the breakout groups served as the focus for the workshop and accounted for the largest block of time.

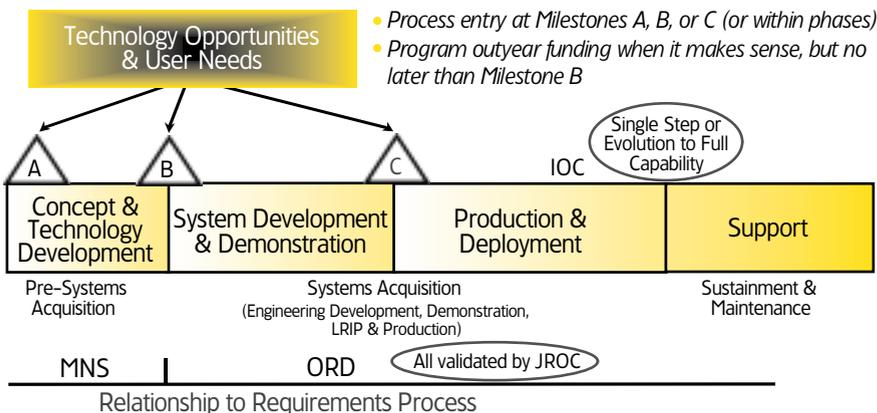
A total of nine breakout groups were developed to cover the full range of the systems life cycle. The groups were instructed to identify problems within their topic area and to develop workable solutions for presentation to DoD leaders.

Before the conference participants adjourned to their groups, a panel of breakout group leaders discussed the key issues. Dr. Joseph Ferrara, Deputy Director, Acquisition Systems Management, opened the panel's discussion with a presentation on the newly completed revisions to the DoD "5000-series" acquisition directives. These revisions provide an acquisition framework displaying the following characteristics:

- Delivers advanced technology to the warfighters faster.
- Reduces total ownership costs.
- Is more flexible and focused on interoperability, supportability, and affordability.

(The chart shown at the bottom of this page depicts the new acquisition process as described by Ferrara.)

While the current process allows evolutionary approaches, Advanced Concept



## The 5000 Model

Technology Demonstrations (ACTD), and other innovations, they are treated as "excursions" from the normal process. The new acquisition policy involves multiple process paths; there is not just one way of entering the acquisition process.

Evolutionary acquisition — based on time-phased requirements — is defined as the preferred (but not the only) acquisition approach. Programs should define a minimum number of Key Performance Parameters (KPP) to facilitate cost-performance trades.

The system also provides for a maximum of only three potential milestone review points:

- Analyze alternatives — explore concepts and technologies.
- Begin systems development and demonstration.
- Commit to low-rate production.

Ferrara acknowledged that the new acquisition policy is likely to present a number of implementation challenges. Such challenges might include, but certainly are not limited to, the following:

- Employ new product support strategies.
- Accept a militarily useful capability early, based on demonstrated technology, and obtaining objective capability when technology matures.
- Ensure that successive evolutionary blocks are adequately funded.
- Ensure that "transition funding" is available to speed the transition of successful demonstrations to acquisition.

- Integrate the test and evaluation community into the new acquisition approach.
- Ensure that the workforce (including industry) is adequately trained to successfully implement the new approach.
- Assure Congress that the new approach will continue to allow them visibility into DoD programs and continue their ability to verify DoD's accountability for program success.

Brad Gale, Director for Customer Initiatives, Lockheed Martin Aeronautics Co., gave an industry perspective on "The Business Cycle and Economic Incentives." He described the economic realities facing defense industry and how the acquisition process can impede or foster an economically healthy industry.

Gale asserted that defense budget and workforce reductions are key factors influencing current industry financial health. Industry has consolidated in response to actual or anticipated funding cutbacks. While industry has taken on more responsibility for weapon system management and support, debt levels for defense contractors are very high.

"Capital is what it's about," Gale stated. "It drives economic health. And capital is exiting this industry. If investors abandon an industry, you have a vicious cycle, not a business cycle."

Gale stated that capital markets are very fluid and highly rational. DoD acquisition managers must be aware of the factors investors consider such as return (dividends and/or growth), cash flow, risk, and predictability. He suggested that current acquisition reform measures such as performance-based acquisition, longer-term contractual arrangements, and increased contractor design authority can help provide the kinds of incentives that are needed to maintain a healthy business environment.

Robert V. Tuohy, Director of Science and Technology Plans and Programs, described commonly identified barriers to more effective transition of technology from the laboratory into defense prod-

ucts and capabilities and described the objectives of the breakout group focused on this subject. Both the S&T and the systems acquisition communities are in broad agreement concerning the importance of the following actions:

- Identify barriers to transition.
- Assess ongoing initiatives to improve/speed transition.
- Identify actions to improve and speed transition.
- Define, discuss, and prioritize potential new initiatives.

He described several OSD efforts to promote broader awareness and more effective transition of technology, including efforts to upgrade DoD's "technology watch" capabilities in order "to gain a higher understanding of expertise, products, and science and technology efforts outside of the traditional program realm."

DoD hopes to use these capabilities, he said, "to identify, both domestically and internationally, new collaborative opportunities with partners who possess technical expertise, unique technologies, or where there is a common program objective."

Tuohy also described DoD's planned "Virtual Technology Exposition" (VTE), a Web site that is intended to "increase awareness of emerging technology in the Department of Defense and to assist acquisition planners as they make decisions during requirements determination; mission needs analysis; and mission area analysis."

Following these overview presentations, the conference attendees split into nine breakout groups, which dealt with the following topics:

### **Speeding Technology Transition**

Co-chaired by John B. Todaro, Director Technology Transition, Defense Research and Engineering, and Dr. Michael F. McGrath, Vice President for Government Business, Sarnoff Corp.

### **Evolutionary Development**

Co-chaired by Dr. Joseph Ferrara, Deputy Director, Acquisition Systems Management, and Navy Capt. Paul Rosbolt, J-8/Requirements and Acquisition Division, Joint Staff.

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—Brad Gale

Director for Customer Initiatives  
Lockheed Martin Aeronautics Co.

### **T&E Support to the Program Manager**

Co-chaired by Lee Frame, Deputy Director for Conventional Systems, Operational Test and Evaluation, and Army Brig. Gen. John Holly, Program Executive Officer, Tactical Missiles.

### **Use of Economic Incentives for Effective Program Management**

Co-chaired by Brad Gale, Director for Customer Initiatives, Lockheed Martin Aeronautics Co.; Tom Graves, Deputy Director for Plans and Programs, U.S. Air Force Aeronautical Systems Center; and Paul McMahon, Associate Dean of Research, Defense Systems Management College.

### **Tangled Sustainability Responsibility Knots**

Co-chaired by Louis Kratz, Assistant Deputy Under Secretary of Defense for Logistics Architecture; Army Col. Gregory Potts, Director of Readiness, U.S. Army Tank-automotive and Armaments

Command; and Army Lt. Col. Joe Steinkamp, Program Manager Palladin and Field Artillery Ammunition Supply Vehicle (FAASV).

### **Competitive Product Support**

Co-chaired by William R. "Bob" Dickie, General Manager, Customer Support, Military Division, Parker Aerospace, and Lawrence "Buzz" Milan, Deputy Assistant Commander for Logistics, Naval Air Systems Command.

### **Early Logistics Planning: How Much is Enough With Evolutionary Development?**

Co-chaired by Thomas Parry, Deputy Director for Systems Engineering, Office of the Under Secretary of Defense for Acquisition, Technology and Logistics, and Robert Rassa, Director, System Supportability, Raytheon Electronic Systems Co.

### **Program Stability for Operations And Support (O&S) Activities**

Co-chaired by Navy Rear Adm. Joseph Dyer, Commander, Naval Air Warfare Center, Aircraft Division/Assistant Commander for Research and Engineering, Naval Air Systems Command, and Vicky Armbruster, Deputy Program Executive Officer, Tactical Missiles, U.S. Army.

### **Accelerating Reform into Action And Results with Rapid Improvement Teams**

Chaired by William Mounts, Director of International and Commercial Systems Acquisition.

The breakout groups met for the rest of the first day, after which the chairs prepared summaries for presentation the next day to the entire workshop.

### **Evening Panel on Commercial Sustainment Processes**

Following a no-host reception, the conference reconvened for an evening panel discussion of "Commercial Industry Sustainment Processes: Can They Be Ap-

plied to Support the Warfighter in Peace and War?" The panel moderator was retired Navy Vice Adm. William Hancock; other panel members included the following industry and government executives:

- Navy Rear Adm. Raymond Archer, Deputy Director, Defense Logistics Agency
- Harry Gregory, Vice President and General Manager, Collins Aviation Services
- Susan Hatchard Hough, Vice President, Marketing and Sales, Supply Chain Services, FedEx
- James Madden, Vice President for Operations, Farrell Lines
- John Marshall, Vice President for Safety, Delta Airlines
- Robert Rachor, Vice President, Planning and Business Operations, FedEx
- Ron Zieball, Vice President, Oshkosh Truck Corp.

Hancock opened the roundtable by observing that research and development (R&D) and production typically account for less than half of the life cycle cost of a defense system; 60 percent of the total cost is spent operating and maintaining that system. "If you can do dramatic things with that 60 percent," he said, "you can free up a lot of money." He stated that since retiring from the Navy, he had observed many commercial sustainment practices that could benefit DoD if applied more widely, and challenged both the audience and the panel members to approach the issue with an open mind.

The panel members who are involved in managing their own air, ground, or sea fleets agreed that their experiences in maintaining these fleets provided some lessons applicable to DoD. Certainly, they said, the logistics challenge they face in keeping fleets operating (worldwide operations, number of makes/models to maintain, ops tempo, potential cost of unscheduled or unanticipated downtime) is comparable in many ways to the challenge faced by the military services. In fact, in some respects (e.g., equipment utilization rates), civilian carriers present more of a challenge than DoD operations.

Harry Gregory of Rockwell Collins said that he was somewhat surprised when he joined Northwest Airlines after a 23-year Air Force career to discover that DoD's processes for financial management and sustainment planning in general were far more sophisticated than the systems in place at most companies. "Our [Rockwell] processes are really quite antiquated, not nearly as disciplined as DoD," he observed. "Where we have the advantage is in flexibility; we can commit money and get things done."

John Marshall of Delta Airlines agreed. "You [DoD] have processes far superior to industry. The advantage we have is our ability to be flexible in order to respond to market changes."

Air Force Brig. Gen. Frank Anderson, DSMC Commandant, underscored this point during the question-and-answer session. He asserted that, "In acquisition policy, we have a lot of flexibility. Lack of budget flexibility is our biggest problem. It impacts the way we think and the way we look at everything. When we look at acquisition reform, the biggest single limit we have is the budget process."

Other panel members addressed their experience in providing worldwide logistics support or supply chain services for their own fleets or for customers. Marshall noted that Delta has benefited from going to an all-Boeing configuration in its fleet, though he observed that the greatest benefit the airline achieves is in simplified training rather than in its supply chain.

Gregory stated that his company provides "power by the hour" contracting with airlines. "We guarantee availability of the system, manage the pipeline, own the spares, and maintain the fleet." He stated that his company had managed to reduce the pipeline and reduce backorders by going to a direct vendor delivery (DVD) contract with the U.S. Coast Guard for maintenance of C-130 transport aircraft and helicopters.

Gregory and Hough addressed the question from the viewpoint of managing the supply chain relationship for customers.

Gregory stated that, "What is growing is a partnership. The customer is demanding a total solution, and we recognize that we can't 'do it all.' To succeed, we must have partners." Hough agreed that, "To be successful, [the various participants in the supply chain] have to begin to trust each other."

### **Maintaining Competitive Sources In a Global Environment**

Jeffrey Bialos, Deputy Under Secretary of Defense (Industrial Affairs), opened the conference's second day with a speech on "Maintaining Competitive Production Sources in a Globalized Economy." Bialos addressed two areas DoD acquisition managers should consider to ensure more effective competition: "... by shaping our acquisition strategies so that they consider the effects on future competition; and, second, by considering foreign sourcing, where appropriate, which is increasingly important in light of today's increasingly globalized defense industrial base."

Bialos reviewed recent structural changes in defense industry and stated that "Our challenge, then, is to maintain defense industrial competitive sources for cost, quality, and innovation benefits in an increasingly consolidated marketplace." Bialos stated that DoD is concerned about the potential anti-competitive impacts of exclusive teaming arrangements and subcontractor selection methods. He suggested that acquisition managers should examine both areas carefully and reject any contractor proposals that would reduce competition.

Bialos also stated that, "There are key changes in the global environment that support the need for greater defense industry linkages between the United States and our trans-Atlantic partners." Factors promoting increased linkages include the need for interoperability, U.S. and European defense industry consolidation, and the need to maintain competitive environments, both in the U.S. and internationally.

"The Department favors an evolution to a competitive trans-Atlantic model of defense industries characterized by in-

dustrial linkages of multiple firms, operating on both sides of the Atlantic, effectively competing in both the large European and U.S. markets.” Otherwise, “we could end up with one or two pan-European firms and several large U.S. firms that have closed home markets and compete in the third world. A ‘Fortress’ mentality could also result in the separate evolution of U.S. and European military technologies, undermine competition and interoperability, and lead to sole source European firms selected as suppliers for political purposes.”

Bialos argued that globalization will provide far greater benefit to U.S. firms through increased sales opportunities than any potential losses of domestic sales.

#### **Panel on PPBS and Program Management**

Dr. Nancy Spruill, Director of Acquisition Resources and Analysis, moderated a panel on “Program Management: How Can PPBS Help? (And Why at Times It Can’t).” Other panel members included the following executives:

- Irv Blickstein, Assistant Deputy Chief of Staff for Naval Operations (Resources, Warfare Requirements, and Assessments)
- Retired Air Force Lt. Gen. Frank Campbell
- Army Brig. Gen. John Holly, Program Executive Officer, Tactical Missiles
- Robert Soule, Director, Program Analysis and Evaluation.

Panel members acknowledged the risk of controversy and disagreement between officials responsible for developing, managing, and advocating programs and those responsible for budget reviews. They stated that it is not the purpose of the PPBS process to erect barriers to prevent acquisition programs from accomplishing their purposes. Soule stated that “We’re all trying to serve our customers,

who are the Secretary of Defense, the taxpayers, and the soldiers in the field.”

The panel members acknowledged that funding instability is frequently a byproduct of budgeting decisions. Soule observed, “One of our main goals is to prevent program instability ... The reason these cuts occur isn’t because people wake up with malicious intent; it’s because we have bills to pay. And this is because we’re trying to do too much.”

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—Brig. Gen. Frank Anderson Jr., USAF  
DSMC Commandant

The panel members asserted that errors in initial program estimates contribute to budgeting problems. Campbell stated, “There is too much content in the programs. The Services won’t make hard decisions to cut programs; instead, they stretch things out, which raises costs.” He characterized the problem as “... a sucking whirlpool. They want to keep programs alive in hopes that the next Congress will raise the topline or they can get more money.”

#### **The Re-engineered Interoperability Process**

John Osterholtz, Director, Information Integration and Interoperability, spoke

on DoD efforts to promote interoperability, which is defined as “the ability of systems, units, or forces to provide services to, and accept services from, other systems, units, or forces and use the services to enable them to operate effectively together.”

Osterholtz noted that it is becoming increasingly important to achieve interoperability, both across Service lines and with allied nations’ forces, because of the increased frequency of multilateral forces and joint task forces. He stated that the current system to ensure interoperability among systems is paper-based and out of date. Rather than providing an ongoing means of evaluating systems design and performance, interoperability assessments are based on a rather static “pass-fail” checklist. The system, he pointed out, is not linked with the acquisition or resource allocation processes, with the result that there is no linkage between the identification of problems and the implementation of solutions.

Osterholtz stated that direction was received from Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) (USD[AT&L]); Office of the Assistant Secretary of Defense for Command, Control, Communications and Intelligence (ASD[C3I]); and the Joint Staff to take the following actions to improve interoperability.

- Accelerate development of an outcome-based management strategy and process that results in tangible and significant improvement to interoperability among key DoD Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) capabilities, modeling and simulation (M&S) sustainment, and information technology resident within related weapons systems.

- Provide the implementation detail for this process to the Architecture Coordination Council (ACC) for approval and implementation across DoD (including DoD intelligence activities).
- Encourage collaborative solutions.

### **Interview with USD(AT&L) Dr. Jacques S. Gansler**

Over the years, the PEO/SYSCOM Commanders' Conference has enjoyed strong support from Dr. Jacques S. Gansler, USD(AT&L), and from his predecessors in that office. Besides attending many of the conference and workshop sessions as a speaker or attendee, he has actively followed up on the issues raised at these conferences and ensured that conference recommendations were acted upon by OSD and Service decision makers.

To provide the most interaction with the audience, Gansler's appearance at this workshop was a question-and-answer session, rather than a more traditional speech. The session was moderated by Stan Soloway, Deputy Under Secretary of Defense (Acquisition Reform).

Gansler described his current concerns about the condition of the defense industrial base and discussed the findings of a Defense Science Board panel on this subject. "We've experienced a dramatic transformation of the defense industrial base in the past few years. Part of that is because we took a 'procurement holiday' for about 10 years, while part of it is also due to the changes that have taken place in technology and in the nature of warfare.

"We were increasingly concerned about some signs of financial problems. During the consolidation, in some cases they may have overpaid and taken on a heavy debt load. We decided to see if there were things we could do, and one thing we took a look at was progress payments. Cash flow is always a principal benefit of defense contracting, so we're looking at what we can do to speed them up."

Turning to the subject of R&D, Gansler stated that, "We also need to do something to make R&D more profitable. DoD is one of the few places anywhere that has a long-term focus on R&D, and we need to make sure that we maintain our R&D focus." Regarding S&T, he stated that "... my principal interest is how can we transition S&T work more rapidly into product?"

Transforming the industrial base was another topic he surfaced. "We also want to transform the industrial base into what we'll need for the 21st century," said

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Dr. Jacques S. Gansler  
Under Secretary of Defense  
(Acquisition, Technology & Logistics)

Gansler. "In civil military integration, this doesn't just mean buying commercial items; instead, we need to change the way we specify requirements and processes so that DoD is just another differentiated buyer of the products of high-technology industries."

In reply to a question about the role of test in the acquisition process, Gansler observed, "There are still some on Capitol Hill and perhaps some in the Department who still think the purpose of testing is a final exam. That's not my view. The test community should be involved early, as part of the development process. The whole idea," Gansler said,

"is to get the operator involved early to see if the new system works." This view of the role of testing in the development process, he said, ties in well with a spiral development process.

### **Summary on Breakout Groups**

During the morning plenary sessions, the breakout group chairs briefed retired Air Force Lt. Gen. Tom Ferguson on the conclusions reached by their groups. Within only a few hours after receiving these briefings, Ferguson had evaluated the breakout group presentations and presented his own summary report to the conference.

Ferguson noted that there was very substantial overlap in what the breakout groups identified as key issues, despite the wide variance in topics. Common themes included the following:

- DoD and contractors would be better able to manage Operations and Support (O&S) costs if better use were made of Information Technology (IT) tools. Integrated tools and systems are needed.
- Cultural change is still a major issue. Many of the groups reported that stovepiped organizational processes continue to impede progress. Not all Integrated Product Teams (IPT) have been effective, and there are too many adversarial relationships (both between government and contractors as well as among government organizations).
- There was substantial agreement that the budget process is the major single barrier to reform. "... You [breakout groups] are saying," said Ferguson, "our financing institution is in the way of the things we'd like to do. Financing and our budget process is an obstacle to reform."
- Establishing long-term relationships between government and contractors is the best path toward achieving many of our goals.
- Performance-based logistics is critical to logistics reform. This initiative appears to enjoy strong rank-and-file support.

- Evolutionary acquisition is the right concept to pursue.
- Logistics reforms targeted at legacy systems are best approached incrementally for now.

#### BREAKOUT GROUP 1 — SPEEDING TECHNOLOGY TRANSITION

This breakout group concluded that a technology transition “seam” exists between DoD’s S&T funding (Basic Research, Applied Research, and Advanced Technology Development), which is managed by DoD’s labs and research centers, and subsequent development funds, which are managed by system program offices.

Despite several current efforts to fund technology transition (such as Advanced Technology Demonstrations [ATD], ACTDs, Joint Warfighting Experiments, and Affordability Pilot Programs), the transition of technology out of the labs and into advanced systems is impeded by factors that include the following:

- Lack of transition funds.
- Lack of a defined technology transition process.
- Cultural differences between the S&T and acquisition communities, which obstruct communication of needs and capabilities.

The breakout group recommended the following actions:

- Establish a technology transition process – with interaction between warfighters, the acquisition community, and S&T managers – clear responsibilities, and resource mechanisms. (Action: Director, Defense Research and Engineering [DDR&E] with the Services).
- Increase awareness by training S&T managers in acquisition processes such as Integrated Product and Process Development Teams/Integrated Product Teams (IPPD/IPT) and by improving both the acquisition and S&T communities’ understanding of how the other operates.
- Establish metrics such as providing transition metrics in performance assessments of providing awards (e.g.,

“Laboratory Director of the Year”) for technology transition.

#### BREAKOUT GROUP 2 — EVOLUTIONARY ACQUISITION

Most participants in this breakout group believed that evolutionary acquisition was a good idea. The group concluded that key factors in deciding whether an evolutionary acquisition strategy was appropriate include the following:

- Requirements – the urgency of the need and the evolving threat.
- Technology – the readiness and availability of key technologies.
- Affordability of the objective capability.

All three factors need to be considered in developing an evolutionary acquisition strategy, and there needs to be close communication between acquisition, requirements, test, and budget communities.

#### BREAKOUT GROUP 3 — TEST SUPPORT TO THE PROGRAM MANAGER

The group agreed that test and evaluation (T&E) needs to be integrated more fully within the acquisition process. Currently, various forms of test (e.g., contractor test, developmental test, and operational test) are not integrated effectively, modeling and simulation capabilities are not always available, and manpower restrictions often prevent early participation by the operational test community. The group also believed that IPTs have not always been effective and that manning shortfalls often prevent effective participation by the T&E community in IPTs and other acquisition processes.

The breakout group believed that the T&E process could be modified to support evolutionary acquisition. The time-phased requirements that are part of the evolutionary acquisition process would drive the development of time-phased testing

#### BREAKOUT GROUP 4 — USE OF ECONOMIC INCENTIVES FOR EFFECTIVE PROGRAM MANAGEMENT

This group discussed means of developing an acquisition workforce (in both

government and industry) whose “first instinct is to search for the ‘win-win’ scenario.” The group identified the development of a “Handbook on Economic Incentives” as one tool to help in this transformation. After discussing a possible format for such a handbook, the group assigned responsibilities and tentative deadlines to complete the task.

#### BREAKOUT GROUP 5 — TANGLED SUSTAINMENT RESPONSIBILITY KNOTS

This breakout group’s objectives were fourfold:

- Understand the forces that contribute to tangled sustainment responsibility knots and the issues that have emerged.
- Discuss how to redefine the roles of multiple, powerful, and essential communities within and external to DoD.
- Identify who should implement new processes.
- Identify better models of innovative life cycle support structures.

The group concluded that a number of actions must be taken to untangle the knots. First, DoD should quit shifting the support burden to warfighters/users.

In addition, a number of financial problems must be resolved. These include Working Capital Funds, a host of “color of money” issues that limit what various funds can be used for, and lack of discretionary authority by PMs.

The breakout group also advocated a number of steps to “kill the snake”; that is, deal with massive, longstanding problems that inhibit change in the logistics support community. These steps include: Data Management and Ownership, Engineering Support Activity Authority, and National Stock Numbers (NSN).

The group also recommended that DoD should: 1) establish focal points and effective mechanisms for acting on innovative opportunities and commit senior management resources to support pilot programs; 2) develop a cost accounting system to capture life cycle costs; 3) de-

fine incentives for the logistics community to implement innovative strategies; and 4) develop consistent depot maintenance policy to facilitate communication with Congress.

#### **BREAKOUT GROUP 6 — COMPETITIVE PRODUCT SUPPORT**

This group concluded that actions must be taken to enhance the competitive environment in order to achieve the benefits of competition in product support. There must be a credible perception that a replacement is available and meaningful performance incentives. Many barriers still exist that prevent effective competition, including outmoded financial systems, varying rules of engagement, legislative restrictions, and the threat that such actions will result in elimination or reduction of infrastructure.

The breakout group recommended that the aspect of head-to-head public/private competition should be de-emphasized. This approach creates a confrontational environment and forces industry into the difficult position of competing against its customers. Under the best circumstances, it is difficult to maintain a level playing field when the decision maker is also one of the competitors. The breakout group also recommended the following actions:

- Modify financial processes to facilitate product support.
- Streamline the processes for evaluating and implementing reform initiatives.
- Use incentives and performance measures to achieve the benefits of competition for both organic and commercial suppliers.
- Provide contracting guidelines for developing long-term, performance-based contracts.
- Pursue legislative changes that increase funding flexibility for reform initiatives.

#### **BREAKOUT GROUP 7 — EARLY LOGISTICS PLANNING: HOW MUCH IS ENOUGH WITH EVOLUTIONARY DEVELOPMENT?**

This breakout group recommended a joint DoD-industry effort to develop advanced analysis tools, which are needed

for supportability and affordability trade-offs.

- Current tools are archaic, incomplete, and cumbersome. The group argued that new tools are fundamental to making supportability a KPP or other viable factor in procurement and evaluation.
- It is important to identify the user early and maintain continuous user involvement in acquisition decisions. Involving the user promotes co-evolution of technology and the requirement.
- Contractor logistics support (CLS) decisions should be based on program-by-program life cycle cost effectiveness. The breakout group believed that the rapidly evolving design would point toward more contractor involvement, but that the specifics of this involvement would depend on the nature of the program.

#### **BREAKOUT GROUP 8 — PROGRAM STABILITY FOR O&S ACTIVITIES**

This breakout group recommended a number of actions related to funding as well as a number of other management actions. Funding related actions included four areas:

- Eliminate excess/aged inventory and establish O&S planning reserves with funds saved/obtained.
- Encourage Services to migrate sustaining engineering management toward program channels.
- Incentivize PMs/contractors to increase priority for TOC reduction initiatives over other competing priorities by allowing portion of savings to be retained by program.
- Establish Service (or DoD for joint programs) fund for “TOC” reduction initiatives/investments without imposing new “taxes.”

Management recommendations also included four areas:

- Increase “gain” on O&S cost management decisions that occur early in program cycle.
- Encourage each Service to establish an integrated data environment.

- Encourage active and cooperative effort among requirements communities, operating commands, acquisition/logistics organizations, and comptroller to implement realistic, synergistic planning for system O&S.
- Increase flexibility to move \$\$ across multiple formalized investment programs (e.g., Reliability, Maintainability and Supportability [RMS]; Operations and Support Cost Reduction [OSCR]; Commercial Operations and Support Savings Initiative [COSSI]; or Modernization Through Spares [MTS]).

#### **BREAKOUT GROUP 9 — ACCELERATING REFORM INTO ACTION AND RESULTS WITH RAPID IMPROVEMENT TEAMS (RIT)**

This group constituted itself as a “mini-Rapid Improvement Team” and addressed the issue of improving mission-capable rates. After this experiment, the group concluded that the RIT process provides a good structure to address key issues and a good framework for organizing team personnel. Establishing an RIT can improve and simplify the focus on a key issue and provide a step-by-step process for dealing with the problem. The breakout group noted that commitment from a sponsor is necessary for an RIT to have any prospect of success.

Ferguson closed out his presentation by complimenting all of the panel chairs and members. “I was enormously impressed by the dedication and by the thought that went into these presentations. The breakout groups obviously all worked very hard and developed outstanding recommendations.”

#### **Luncheon Speech by Dr. Sheila E. Widnall**

Dr. Sheila E. Widnall, former Secretary of the Air Force and Institute Professor at the Massachusetts Institute of Technology, closed the workshop and looked to the future with a luncheon address on “Acquisition Reform: Where We’ve Been and Future Challenges.” She reviewed the progress of acquisition reform efforts since the publication of a

1990 Carnegie Commission report, "New Thinking and American Defense Technology," from a panel chaired by former Secretary of Defense Dr. William J. Perry.

These recommended reforms, according to Widnall, encompassed "a set of acquisition reforms directed toward commercial practices in procuring defense systems. Both large-scale and small-scale reforms were begun. The small-scale reforms were directed toward clearing out the thicket of acquisition regulations that prevent DoD from using smart business practices and act as a barrier, preventing efficient commercial firms from competing for defense business.

"The large-scale reforms developed pilot programs containing innovative contract incentives to demonstrate success with big programs. The goal was to recognize that the work of reform would never be finished, but focused on changing enough and getting enough momentum and system knowledge that the system could not, would not, go back to its earlier practices.

"It also included," said Widnall, "a set of incentives to encourage greater efficiency in the defense industries. Efficiencies that could only be realized through the use of competition and the structuring of incentives."

Widnall noted that "acquisition reform was as much a technology-management strategy to ensure that DoD would have access to fast-moving technologies, as it was a strategy to promote reform of the bureaucracy that defense procurement had become with its associated inflated costs.

"The changes in practices to encourage an integrated defense-commercial base," she said, "were the dramatic reduction in MILSPECs [Military Standards and Specifications], the single process initiative whereby commercial and defense products could be made on the same production line, and changes in regulations related to business practices. The hope was that these moves would en-

courage and enable commercial firms to enter the defense market and defense firms to participate in the commercial market."

Despite significant progress, she noted, "The results of several years of effort on this transformation of the defense procurement enterprise are mixed. Although DoD has made great strides in removing regulatory barriers, —and there have been stunning success stories — much remains to be done.

"For example," said Widnall, "DoD is very far from dealing with the defense industrial base using commercial practices. There are few opportunities to 'win' no matter what increases in 'value' are provided to the warfighting customer: and there are few opportunities to 'fail' no matter how ineptly a defense program is carried out.

"So what?" asked Widnall. "It could mean," she pointed out, "that DoD is paying more and working with a set of less efficient producers, because these producers are willing to work for lower margins than their counterparts in commercial industry. And whoever decided that defense companies should be shielded from the consequences of bad business decisions by being able to load their indirect costs onto healthy programs?"

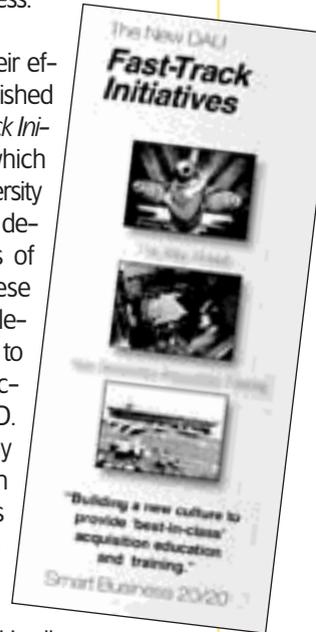
Concluding, Widnall said that, "The last few years have been enormously productive for acquisition reform. We have launched on an agenda that would have seemed impossible in the late 80s. We have reaped substantial benefits and uncovered at least a few of the basic principles needed to operate in this new industrial climate."

**Editor's Note:** The author welcomes questions or comments on this article. Contact him at [LReed@ida.org](mailto:LReed@ida.org).

For information on past or upcoming PEO/SYSCOM conferences or workshops, refer to the Defense Systems Affordability Council (DSAC) Web site at [www.acq.osd.mil/dsac/](http://www.acq.osd.mil/dsac/).

The Defense Acquisition University (DAU) is restructuring and building a strategic plan to rethink DoD's business processes, reduce costs, improve efficiency, and prepare the Acquisition, Technology and Logistics Workforce for new ways of doing business.

To communicate their efforts, DAU has published a new *DAU Fast-Track Initiatives* brochure, which details how the University intends to go about developing new ways of doing business. These initiatives, once implemented, should lead to better business practices throughout DoD. Viewed as "The Way Ahead for Acquisition Training," the DAU's Fast-Track initiatives include:



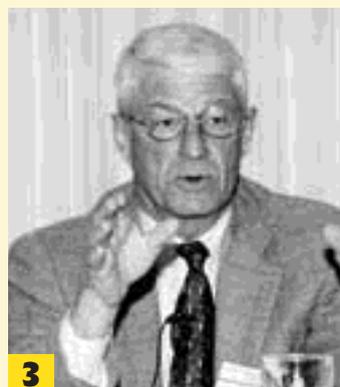
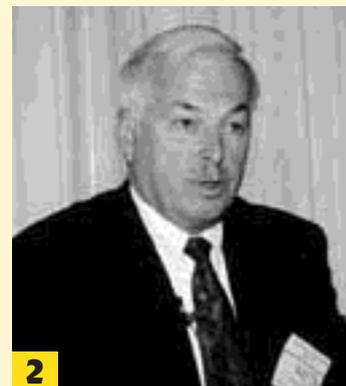
- Headquarters, DAU collocation with the Defense Systems Management College at Fort Belvoir, Va.
- Revision of PM Training Curriculum
- Critical Thinking and Case-Based Curriculum
- Faculty Development and Currency
- Budget Reassessment and Realignment
- Functional Integrated Process Team/Overarching Integrated Process Team (FIPT/OIPT) Jump-Start
- Supporting the new "5000" Changes
- Knowledge Management
- Change Management Center
- Strategic Alliances

Through improved acquisition training and reorganization of DAU staff functions, DAU will offer the DoD acquisition community an acquisition education, training, and career development program that meets their educational needs well into the 21st century.

For Fast-Track Initiatives progress, visit our Web site at [www.acq.osd.mil/dau](http://www.acq.osd.mil/dau) or call Army Col. Joe Johnson: (703) 805-2140; DSN 655-2140.

# SECOND ANNUAL PEO / SYSCO "PUTTING THE PI

1. Susan Hatchard Hough, Vice President, Marketing and Sales, Supply Chain Services, FedEx, discusses the relevance of commercial supply chain management practices to the military.
2. Retired Navy Vice Adm. William Hancock chairs an evening panel on commercial sustainment processes.
3. John Marshall, Vice President for Safety, Delta Airlines.
4. Irv Blickstein, Assistant Deputy Chief of Staff for Naval Operations (Resources, Warfare Requirements, and Assessments), addresses PPBS policies and practices.
5. Retired Air Force Lt. Gen. Thomas Ferguson presents a summary of the Breakout Group presentations.
6. John Osterholtz, Director, Information Integration and Interoperability.
7. Marty Evans, U.S. Air Force Acquisition Career Management and Resources Division, presents a tutorial on "The Acquisition Workforce and the Role of Acquisition Support Teams."
8. Martin Meth, Director of Industrial Capabilities and Assessments, presents a tutorial on "Strategic Planning for Industrial Capabilities."
9. Panel on "Commercial Industry Sustainment Processes: Can They Be Applied to Support the Warfighter in Peace and War?" From left: Ron Zieball, Vice President, Oshkosh Truck Corp.; retired Navy Vice Adm. William Hancock; Navy Rear Adm. Raymond Archer, Deputy Director, Defense Logistics Agency; Harry Gregory, Vice President and General Manager, Collins Aviation Services; James Madden, Vice President for Operations, Farrell Lines.
10. Jeffrey Bialos, Deputy Under Secretary of Defense (Industrial Affairs) and Stan Soloway, Deputy Under Secretary of Defense (Acquisition Reform).
11. Dr. Nancy Spruill, Director, Acquisition Resources and Analysis, leads a panel on "Program Management - How Can PPBS Help?"
12. Air Force Maj. Gen. Claude Bolton, Program Executive Officer for Fighter and Bomber Programs, SAF/AQ, questions a speaker.
13. Army Brig. Gen. John Holly, Program Executive Officer, Tactical Missiles, co-chairs Breakout Group on Test and Evaluation.
14. Louis Kratz, Assistant Deputy Under Secretary of Defense for Logistics Architecture, co-chairs the Breakout group on "Tangled Responsibility Knots."
15. Stan Soloway, Deputy Under Secretary of Defense (Acquisition Reform) interviews Dr. Jacques Gansler, Under Secretary of Defense (Acquisition, Technology and Logistics) on progress in acquisition reform and the state of the industrial base.
16. From left, Vicky Armbruster, Deputy Program Executive Officer, Tactical Missiles, U.S. Army, and Navy Rear Adm. Joseph Dyer, Commander, Naval Air Warfare Center, Aircraft Division/Assistant Commander for Research and Engineering, Naval Air Systems Command, co-chair breakout group on program stability.



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