

Gansler Delivers Keynote Address at Executive Acquisition Symposium

Realizing Acquisition Reform

Editor's Note: In one of his first speeches as the new Under Secretary of Defense for Acquisition and Technology, delivered three days after his confirmation, Dr. Jacques S. Gansler presented the keynote address at the Valley of the Sun Partnership Group's Executive Acquisition Symposium, Nov. 13, 1997, in Phoenix, Ariz. His remarks expand on force modernization and paying for modernization — areas he pinpointed as requiring particular attention in his Nov. 10 Statement before the Committee on Armed Services, United States Senate.

Thank you for inviting me here today to this critically important symposium on industry/government partnering. I firmly believe it is only through partnering that we can achieve our joint objective of acquiring goods, services, and better performing weapons in a smarter and faster manner, while simultaneously reducing cost and improving quality. Local initiatives, such as the Valley of the Sun's Information Sharing Group's effort to exchange details of process improvements under the Department's Single Process Initiative, are exciting examples of the benefits of such government and industry partnering.

While I have only been in this job a very short time, I can honestly say I have spent the last 45 years preparing for it; and, thus, I have formed some opinions — which I would like to share with you today — about how we should move forward. Specifically, over the next few years I see



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*—Dr. Jacques S. Gansler
Under Secretary of Defense
(Acquisition and Technology)
November 13, 1997*



Recognize that these projected future threats may not attempt to match the overwhelming U.S. superiority on a plane-for-plane, ship-for-ship, or tank-for-tank basis, as was the case with the Cold War model; rather, enemies are likely to use asymmetrical approaches, including weapons of mass destruction (chemical, biological, and nuclear) against our troops, our infrastructure, and our homeland.

Additionally, they do not need to have the capability of developing their own weapons. They can buy them on the global arms market and, increasingly, the commercial market — while also purchasing the required training in the use of these weapons (including achieving the extremely damaging effects of global information warfare against our forces and our infrastructure).

To counter these sophisticated, asymmetrical threats, the United States must not only actively pursue counterproliferation efforts, but also take maximum advantage of our leadership position in advanced technology — especially in the information field. Finally, as was stressed by the Chairman and Joint Chiefs in “Joint Vision 2010,” the key to the United States being able to handle the likely scenarios of 21st Century warfare will be our ability to truly achieve integrated, multi-Service (Joint) operations — at all

the focus on the two critical questions of *what we buy* and *how we pay for it*. Let me begin by first addressing these two broad issues, and then end with some personal thoughts about what actions we in government and you in industry should initiate in the coming months.

Modernizing for 21st Century Warfare

First, meeting the challenge of specifying,

developing, equipping, training, and supporting America’s forces with the weapons and other essential military systems, required to meet the projected threats of the early 21st Century. As the Quadrennial Defense Review [QDR] indicated, these projected threats range from actions by terrorists, transnational actors and rogue nations, through major urban and theater warfare, and on up to nuclear war. Importantly, we must rec-

levels; and, increasingly, on a multi-national basis.

In this new threat environment, it is critically important to recognize that many of the likely military needs are not simply extensions or subsets of current operations and equipment. Clearly, there are numerous military system developments and procurements currently underway, which must be continued: activities on ballistic missile defense, next-generation platforms, and weapons/system upgrades, etc. However, with our present position of military superiority, we have the opportunity to devote a more significant share of our resources to the areas of perceived deficiencies and new technological opportunities for meeting the requirements of future military conflicts.

There are five areas that I believe require particular attention:

1. Near-term achievement of an integrated, secure, and “smart” command, control, communications, intelligence, surveillance, and reconnaissance (C³ISR) infrastructure – on a multi-Service basis and encompassing both our strategic and tactical needs. This is the critical element of an effective 21st Century warfighting capability and the backbone of the Revolution in Military Affairs. It is the key to our strategy of information “dominance.”
2. Development and deployment of long-range, all-weather, low-cost, precise, and “smart” weapons. This will allow us to achieve maximum fire power on targets (either fixed or mobile) from air, land, or sea with minimum loss of life; and it will allow us to take full advantage of the advanced C³ISR systems (for example, by providing continuous targeting (including in-flight) from remote platforms).
3. Achievement of rapid force projection and global reach of our military capability. With the uncertainty over where our forces will be required, and the need for extremely rapid re-

sponse to a crisis anywhere in the world, this capability – when combined with the first two elements [described previously] – will provide the United States with overwhelming military superiority.

4. Development and deployment of credible deterrents and, if necessary, military defense against projected, less “traditional,” early 21st Century threats – such as biological, chemical, and nuclear weapons, urban combat, information warfare, and large numbers of low-cost ballistic and cruise missiles. These are areas of growing concern and likelihood; and we can no longer put them into the “too hard” category. They must be addressed as priority issues.
5. Achieving interoperability with our allies – an essential requirement for coalition warfare. As events over the last few years have shown, coalition warfare is likely to be the normal case; and thus, we must work closely with our allies to assure that their technologies represent a strong complement to our forces, i.e., that they are participants in the Revolution in Military Affairs, and that the C³ISR systems and advanced weapons that we are each utilizing are fully interoperable.

Paying for Modernization

The other major challenge is how to pay, within a constrained budget, for this necessary modernization. Essentially, what is required is the realignment of overall DoD resources to reflect 21st Century military needs. Specifically, we must continue and greatly expand our efforts to implement a “Revolution in Business Affairs” within DoD and its industrial base – thereby achieving the needed performance gains at far lower costs.

To do this, the government must take full advantage of the technologies and management lessons that U.S. commercial industry has evolved over the last decade, as it returned to its leadership position in worldwide commerce.

Today, the United States has clearly the strongest military in the world. Yet, we

have put off force modernization over the last decade – allowing the procurement account to fall by over 70 percent. However, the challenge is not simply to replace the aging equipment but to develop and deploy the new – and often very different – systems required for the early 21st Century.

Thus, we must continue a strong R&D effort, while also buying far more of the advanced communication and intelligence systems, offensive and defensive “smart” weapons, biological and information defense, etc., required for projected future conflicts. Based on current Administration and Congressional budget projections, all of this must be done without a significant increase in the overall DoD budget.

In this area – of getting more capability without a budgetary increase – I would like to emphasize the truly outstanding job done by the complete DoD acquisition community (from Secretary Perry on down) during the last Administration, in beginning the required acquisition reforms. Our challenge is [to] keep up the momentum and build upon this foundation. To do this successfully, we also need your commitment and assistance.

Here again, five areas require specific attention:

1. Aggressively pursuing and fully implementing the acquisition reform initiatives which the Congress and the Department worked so hard to develop over the last several years. Many critical efforts were started. Let me simply note some: program stability; “cost as an independent variable” (including total ownership costs); short acquisition cycles; advanced concept technology demonstrations [ACTDs]; purchasing commercial subsystems and parts (to improve performance and reliability while lowering costs); “modernization through sparing”; “best value” Service procurements; commercial standards; performance-based specifications; minimum “flow down” of unique defense requirements to the

lower tiers; contractor logistics; electronic commerce; incremental developments and deployments; open systems architecture; “single process initiative”; integrated product and process developments; past performance evaluations; and, particularly, “teaming” with industry.

All of these must be aggressively pursued – with detailed action plans and metrics – and fully implemented if the DoD is to achieve its desired objectives of “faster, cheaper, and better” development, production, and support of weapon systems, as well as goods and services.

2. Broadening the defense industrial base. While the many mergers and acquisitions have been both necessary and desirable (to reduce the excess capacity as the DoD downsized in the post-Cold War era), there is a growing concern that we may end up with only sole-source producers in critical defense sectors – thus eliminating the innovation, cost, and responsiveness benefits of competition. However, a solution likely lies in a broadening of the defense industrial base to include commercial firms. These often represent the state-of-the-art (for example in many information-intensive fields), and yet are much lower-cost and have much shorter development cycles.

In many cases the DoD can directly utilize commercial systems, subsystems, and components; but, in other cases, the solution lies in an integrated (“flexible”) production line of a few defense-unique items along with the high volume of commercial items (themselves often tailored for a variety of customers). Thus, increased levels of civil/military industrial integration is a direction in which the DoD must move.

A complement to this would be a shift to a more global industrial base – one created by industry forming international teams for bidding on the military equipment required for coalition warfare.

The broad objectives of this reengineering are to transform DoD logistics from one based on Cold War scenarios to one incorporating best commercial practices, advanced information systems, and rapid transportation to provide highly responsive logistics support at significantly reduced costs to our forces in the 21st Century.

In general, the DoD’s future focus on the three areas of maintaining competition, achieving civil/military integration, and taking full advantage of the global marketplace, will result in achieving an industrial base which will provide the required 21st Century equipment at much lower cost and much more rapidly, yet with the required state-of-the-art performance.

3. Since far too much (currently around 65 percent) of the total DoD budget goes to the “infrastructure” area, there must be a significant shift of DoD resources from support to modernization and combat – a conversion of “tail” to “teeth.” This infrastructure area is the one that commercial industry found they must attack if they are both to improve their performance and simultaneously lower their overall costs.

The key elements in this reduction of support costs can come from widespread application of commercial technology and products, advanced information technology, and competitively sourcing all non-inherently governmental functions. The last of these could annually provide many tens of billions of dollars worth of potential additional business opportunities to competitive U.S. industries. All of the empirical

evidence indicates that the results of these competitions will be dramatic improvements in performance, along with over a 30-percent reduction in costs.

Naturally, such actions will not be easy to achieve. However, as Secretary Cohen has stated, unless there is a significant increase in the DoD budget’s “top line,” there is no choice; either we continue to maintain and pay for the current, unneeded, and inefficient infrastructure or we modernize our forces – we can not afford both!

4. We must drastically transform the current DoD logistics elements of the acquisition system, in order to achieve much faster response at much lower cost. “Focused logistics” is one of the four major objectives of the Chairman of the Joint Chiefs’ “Joint Vision 2010.” Here, the first of the actions is obvious – obtaining much higher reliability equipment at much lower cost. “Modernization through sparing,” particularly with commercial parts and subsystems, is a key here. While “Modernization through spares” and similar actions to enhance reliability will reduce logistics support requirements, those initiatives must be supported by an overall reengineering of logistics processes.

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Achieving this requires major reductions in cycle times – to include procurement and production lead time, repair cycle time, and order and ship time. These cycle time reductions will also enable us to reduce infrastructure and current inventory levels by tens of billions of dollars.

U.S. world class commercial firms across a wide range of industries have already done this, and we must aggressively pursue similar actions throughout DoD.

5. Last, but certainly not least, to achieve efficient and effective modernization of the DoD acquisition system, we must focus on enhancement of the overall acquisition workforce. Clearly, the key to the success of all of the required changes are the people within the government who are responsible for their successful implementation.

As we move to more sophisticated processes that require decision-making empowerment down to lower levels in the acquisition workforce, we must assure that we have the right types of people for the government's role (e.g., more systems thinkers and good managers, rather than detailed designers); and, then, it is essential that the training and education of these people be the best possible. This is an area that must receive increased and continuing emphasis.

It is no longer adequate to simply assume that someone who once took an acquisition or a logistics course is currently up-to-date. As advanced technology and acquisition reforms become far more widespread, it will be necessary for the workforce to receive continuous updating in their training. Fortunately, much of this can now be done through the use of computer-based, distance learning – far more efficiently and effectively than the historic, more traditional approaches. Smart, well-educated personnel are the key to successful implementation of the DoD's Revolution in Business Affairs over the coming years.

I might note, incidentally, that there is a need for a similar emphasis on continuous education and training on the industrial side – both to capitalize on industrial "best practices" as well as government acquisition reforms. And here too we can profit by working together, industry and DoD. One way is through joint training, such as the case study on

JDAM [Joint Direct Attack Munition] that the Defense Acquisition University and the Boeing Learning Center are developing.

Actions for Government and Industry

The first and most obvious requirement for modernization is the generation of funds to invest. This problem will become even more critical in the next budget cycle, since the top line is essentially fixed by agreement of Congress and the President. So the only way we will be able to generate added dollars is through savings, and the most obvious area for this is in the operations and maintenance (O&M) arena.

The QDR found the potential for – and the Secretary is committed to – shifting \$17 billion annually from O&M into modernization by 2001; with greater shifts in the outyears. To do this, we have to focus on reducing O&M costs through equipment reliability improvements, the introduction of modern information systems, outsourcing, and logistics reengineering. Analysis has shown that the potential for making these savings is very real, but it will be extremely difficult and require cooperation not only from within the DoD and the defense industry, but also the Congress.

One of the problems we have historically had is the fact that O&M is annually underfunded, and then money has to be taken from the acquisition accounts during the year. This results in extreme program instabilities and gross inefficiencies. Thus, the obvious step – which was taken in this year's budget cycle by Secretary Cohen – was to insist upon full funding for O&M. In the short term, this will actually reduce the total dollars available for modernization, but it will force the DoD to recognize the high cost of O&M and to immediately begin to address this issue.

A second cause of program instability has been the horizontal cuts that have annually been taken on all programs (in the budget process), thus resulting in added inefficiencies. The preferred al-

ternative, which we must face up to, is the termination of lower-priority programs when there are not enough dollars available – thus maintaining the program stability and efficiency on the higher-priority efforts. This raises the importance of the issue of "what we buy."

The speeches given by all of the DoD leaders, and those in industry, emphasize the importance of the Revolution in Military Affairs for America's leadership in the 21st Century; but a look at the budget shows that we continue to fund many of the older platforms at the expense of the C³I systems, the smart weapons, the digital battlefield equipment, etc. – all required to actually realize the Revolution in Military Affairs. Thus, there needs to be a significant shift in budget allocations if we are to maintain U.S. military superiority in an era in which our potential adversaries can gain significant benefits through asymmetrical and lower-cost investments.

Then, in the area of "how we buy," the government needs to recognize the short cycle times associated with the equipment required for the Revolution in Military Affairs, and the fielded military performance and cost benefits that come from planning short cycle times. It is simply wrong for the DoD to be utilizing development cycles that stretch to 16 to 20 years solely to "save on annual expenditures levels." We must shift to the commercial model of incremental product improvements with short cycle times, and continue our R&D efforts at technological advancements which can then be inserted rapidly when proven out.

One major initiative that was begun in the last Administration and which needs far greater emphasis in the next few years is that associated with the costs of weapons as a military requirement. This truly will result in our doing business in an entirely different way – from the requirements process through the design and manufacturing process, and even through the supporting industrial structure that is required to achieve not only

lower initial costs, but lower life-cycle costs.

Finally, from the government's side, additional steps are required for the government to encourage firms that are not currently defense suppliers – and yet are world-class in their areas of specialization – to become players in the defense world, at either the prime or lower tiers. Here, I think the biggest area that has not been addressed is that associated with government-unique cost accounting and auditing requirements. To encourage commercial firms to enter into our business, we are going to have to shift to price-based contracting.

To achieve this in all areas and yet still have adequate assurance that the government is getting the best buy for its money, will require us to maintain some form of explicit competition in all of our activities – perhaps current system enhancements vs. new systems, or alternative ways to achieve the same mission, or starting a next-generation prototype, etc.

All of these initiatives cannot be fully implemented unless we maintain the support of Congress. As business people, we understand that when changes are made, we need to be tolerant of mistakes that are made along the way of implementing change. Congress is not as patient. One of my top priorities will be to work with Congress to recognize the long-term benefits of reform and the need to maintain flexibility in implementation. I hope you can also make your opinions known.

I will also devote a lot of time working with Congress on achieving program stability. As I mentioned before, this issue is a very important part of our efforts to fund modernization. If the DoD is ever to achieve stability on its priority programs, then the budget which it submits to the Congress needs to be supported by the industry. Since the future budgets will be “zero-sum games,” industry attempts to “add” money for programs that are not in the DoD budget simply means that those dollars will come from other programs; and thus introduce in-

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stability throughout the total acquisition arena – often in programs in other divisions of the same company.

Turning now to a specific industry effort, I think enormous progress has been made over the last few years in not only the working relationships between the government and industry – through such things as integrated product teams and other forms of partnering – but also industry has done a good job in attacking the excess capacity and inefficiencies through the steps that you have taken in consolidation and business practice reengineering. I also think that industry has responded well to the government initiatives in the acquisition reform area – many of which were, in fact, suggested by industry. All of these efforts must be continued and fully implemented – we still have a long way to go.

However, let me suggest an area that I believe industry can focus on, over the coming months, to significantly help in the required changes. Namely, looking down from the prime-contractor level to the lower tiers of the defense industry; here, there is growing concern with regard to the prime's dealings with their suppliers. Essentially, we need you to take the same perspective with respect to your suppliers as we have tried to take in our acquisition reform initiatives with you. At the lower tiers, there is even a greater opportunity for full commercial integration of operations and of suppliers. One of the obvious concerns associated with the recent mergers and acquisition tendency has been the fear

of vertical integration; and the resultant elimination of innovation and competition. Here, those who are performing a systems integration role, as a prime contractor, need to strongly consider the potential for obtaining defense-unique subsystems from commercial lines. In order to do this, there must be no special requirements passed down to the suppliers – in terms of process specifications, accounting system requirements, etc. The DoD primes must simply be another buyer of high-quality, high-performance, differentiated items. We believe there are enormous performance, cost, and cycle time benefits to be realized on our future weapon systems through such actions.

Concluding Remarks

Let me end by observing that, unfortunately, we are now facing a time in which we must develop and buy new defense systems, and yet we have insufficient funds available to do so. Thus, we will be facing a very difficult period in the coming years. To this end, Secretary Cohen has started to implement some major reform initiatives, starting with his own staff. On Monday, the Secretary announced his plan, the Defense Reform Initiative, for reorganizing the top levels of the Department to respond better to the needs of this new security and budget environment. The effort focuses on maintaining competition, reducing infrastructure, learning from the best practices of the private sector, and reengineering our business operations to become more efficient and effective.

As U.S. industry found, these changes are necessary, but very difficult to achieve. Nonetheless, we are going to do it! But we cannot do it alone. I firmly believe that the only way for the nation to achieve a strong national security posture is through the required government and industry partnering to effectively implement the broad initiatives associated with all aspects of acquisition reform. This symposium is a critically important part of realizing that objective. I thank you for your participation, and I look forward to working closely with you over the coming years in achieving our joint objectives.