



## From Our Readers

### **Making the Contract Type Fit the Program**

Republican Sen. John McCain of Arizona, the vice chairman of the Senate Armed Services Committee, recently proposed limiting the Pentagon to fixed-price contracts for weapon programs. In considering this proposal, it is worth reviewing available contract types and past policy in applying contract types.

First, the two main contract types are fixed-price and cost-plus. Fixed-price contracts place greater risk on defense contractors to deliver a weapon system at a quoted cost. If uncertainty exists, contractor proposals can be expected to have higher prices to compensate for any added risk. Cost-plus contracts allow the government and contractor to share risk by giving the government the option to continue funding a weapon program above a contractor's initial estimate.

Second, past reform initiatives appear to follow the swings of a pendulum. In the mid-1960s, for example, the objective of "Total Procurement" was to transfer more risk to defense contractors by competitively bidding fixed-price contracts over both development and production phases of a weapon system. The expected advantages included avoiding "low-ball" bidding of development contracts, and obtaining production price commitments from contractors. The focus on awarding more fixed-price contracts resulted in cost-plus contracts going from the most common contract type to less than 5 percent of Air Force procurement dollars by 1966, according to G. Brunner and G. Hall in a 1968 publication "Air Force Procurement Practices 1964-1966." Problems with Total Procurement resulted in a July 1969 memorandum by then Deputy Secretary of Defense David Packard advocating cost-plus contracts for development and fixed-price contracts for production of weapon systems. This guidance appears to have remained consistent until 1980, when the emphasis shifted again toward fixed-price contracts for all phases of a weapon program. The use of a fixed-price contract proved to be a mistake on the now successful Advanced Medium Range Air-to-Air Missile development contract. Awarded in 1981, the AMRAAM contract experienced significant cost growth and schedule delays that led to a complete restructuring of the program by 1985.

Current practice is consistent with then Deputy Secretary of Defense Frank Carlucci's reform initiative from 1981 that advocated the use of appropriate contract types.

In general, fixed-price contracts are more appropriate for production contracts where costs are either known or easily predicted, and cost-plus contracts are more appropriate in situations—such as development—where costs are uncertain. Over time, safeguards have also been established to avoid defense contractor misuse of cost-plus contracts. For example, government personnel with the Defense Contract Management Agency provide on-site inspections of defense contractor facilities and work, and Defense Contract Audit Agency personnel perform audits of contract costs to ensure they are appropriate.

In light of available safeguards, a review of past reform efforts suggests that mandating a single contract type is not better than matching the unique circumstances of a weapon program with an appropriate contract type.

David R. King, Ph.D.  
Dayton, Ohio

### **Quaid and Ward Strike a Chord**

Congratulations to Majors Quaid and Ward on their article "It's All About the Talent" in the November-December 2006 issue. It is excellent! As a former assistant secretary of the Army, former deputy assistant secretary of the Air Force, and former chair of the DAU Board of Visitors, the article hit a strong positive chord. Their message needs to be heeded by the USD (AT&L), as well as by the Army, Navy, and Air Force. As long as DoD continues to assign people with modest acquisition training and experience to important acquisition positions, DoD will continue to have the problems that it experiences on major acquisition programs.

The military services have outstanding programs for selection, training, and experience of military personnel assigned to important positions in military operations. If DoD adopted practices for acquisition comparable to those it uses in placing people in skilled,



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demanding operational assignments, the record for defense acquisition programs would be far more attractive.

Many thanks for taking the time to write an article about such an important topic.

**J. Ronald Fox**  
Professor Emeritus  
Harvard Business School

I am a recently retired Air Force officer—Systems Engineering, Acquisition type. I now do what I always did for the AF, but in a contractor suit these days.

Whatever you do with your journal, I would like to suggest you keep Major Ward and Major Quaid as permanent contributing authors. They have a way of getting to the essence of an issue in a way that is very readable & enjoyable. The first thing I look for in a

new issue of *Defense AT&L* is an article by Ward/Quaid. Many times it is the only thing I read in the journal.

It's not just because they are "funny" (and they are), but it is because they hit the bull's eye every time. Their most recent article on "It's All About the Talent" (Nov-Dec 2006) is a perfect example. If I see another commission or report about what is wrong with the acquisition system, I think I will be sick.

Anyway, I don't know if you or the two of them take a lot of grief for what they write—but it is refreshing to see someone tell the emperor he has no clothes.

**Tommy Ray**  
Booz | Allen | Hamilton

*Editor's note: Far from taking grief, Majors Quaid and Ward have received numerous job offers on the basis of their often-edgy articles in Defense AT&L.*

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