



Cost Growth and the Limits of Competition

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Reasons For Cost Growth

Cost and schedule overruns on Major Defense Acquisition Programs (MDAPs) is a major problem. So why do they occur?

I looked at five recent studies and associated literature on this subject to try to find out.

What I found was that actions or decisions of the Government were the primary reasons for cost growth.



Five Recent Studies

- GAO Report (2008) Assessments of Selected Weapon Programs. Looked at 72 programs and found 63% had experienced cost growth.
- GAO Report (2008) Military Operations. Looked at seven service contracts found six had overruns.
- RAND (2008) study “Sources of Weapon system Cost Growth. Looked at 35 MDAPs all but 8 experienced cost growth.



Five Recent Studies (cont.)

- Institute for Defense Analysis (2009) study “The Major Causes of Cost Growth in Defense Acquisitions.” Looked at 11 MDAPs all of which experienced cost growth.
- Defense-Industrial Initiatives Group (2010) study “Cost and Time Overruns for Major Defense Acquisition Programs.” Looked at 85 MDAPs and most experienced cost growth.



Reasons For Cost Growth

Cost overruns primarily occur for the following reasons:

- Changes made to contract
- Estimating errors
- Inadequate analysis of risks
- The process itself
- Contract type, not so much



Causes of procurement cost growth

- **Errors** 15% (Est. 8%, Tech. 5%)
- **Changes** 57% (Qty. 41%, Sch. 10%)
- **Financial** 1% (Inflation)
- **External events** 2% (Congress, etc.)

(RAND 2008)

72% of cost growth caused by errors or decisions made by government officials.

Poor upfront analysis was also a factor.

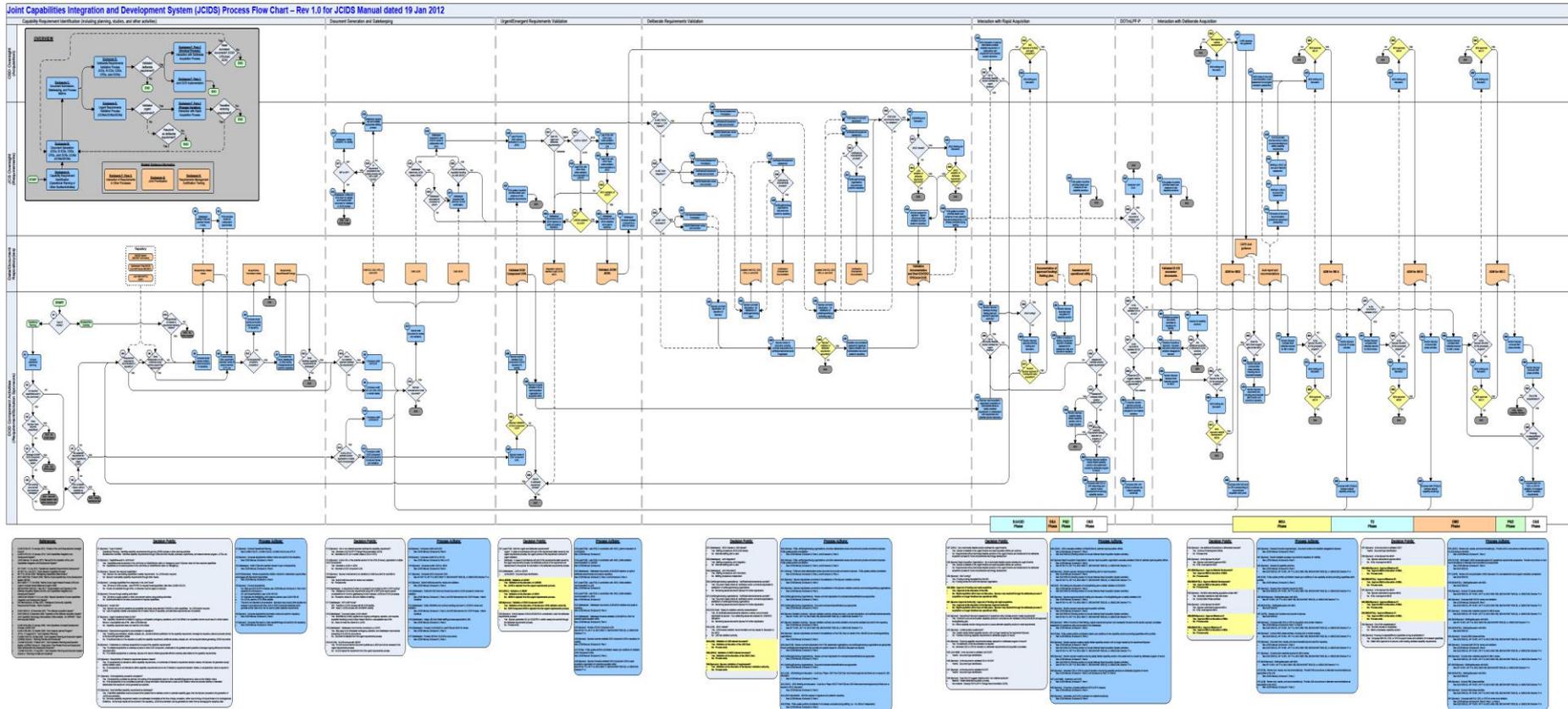


Some other causes

- **Contract management issues**
- **Paying for re-performance of sub-standard work**
- **Ktr caused delays**
- **Engineering changes**



Another cause, JCIDS





Recommendations

- **Better up front planning and risk analysis**
- **Improve cost estimating capability and market research**
- **Strive to have real competition**
- **Don't change the contract**
- **Streamline the acquisition process**



Cost Growth

- Questions???

Thank you!