Progress Report of Achieving Efficiency and Productivity Initiatives

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COST ESTIMATION PROCESS

Dilbert
By Scott Adams

How much will it cost to develop our next generation product?

It will cost whatever you put in the budget.

How much should I put in the budget?

Ask for the biggest number you think will get approved.

If we get a lot of money we can build something great.

If we don’t get much money we can build something lame, and compensate for the lack of quality by lying more vigorously than usual.

I’ll aim low so I don’t get yelled at during the executive budget meeting.

I remember a time when this sort of thing would haunt me.
Efficiencies and Enhancements

Doing This

$29.6B in Efficiencies Submitted

Streamlining operations and organizations

Reducing redundancies in weapons systems

Reducing installation overhead & manpower program adjustments

To Sustain/Enhance

$26.1B in net enhancements

Forces & Structure

Quality of Life

Urgent & Future Capabilities

Readiness
1. **Affordability/Cost Reduction**
   - Leveraging
   - Should cost vs. Will cost
   - Affordability as Requirement
   - Stable Production Rate
   - Portfolio Reviews

2. **Contract Terms**
   - Type of contract
   - Cash flow
   - Non-value added
   - Improved audits

3. **Incentives**
   - Policy
   - Small business
   - Rewarding excellence
   - Protect tech base

4. **Measure Productivity Growth**
   - Metrics
   - Develop out-year wedge (2-3%)
   - CAPE (Industry Savings Assessment)

5. **Services Tradecraft**
   - Management of services
Margin vs Trade Space

Should-cost (Obj –X%)

APB Objective (Will-cost)

APB Threshold (Obj +10%)

Contractor and PM must be incentivized

What PM is funded to (APB must be fully funded)

Minimum acceptable to the Gov’t.
BACK UP SLIDES
“Program-Level” Should Cost Estimate - not just the immediate contract!

• **Who owns?**
  Program office develops, owns, reports & tracks the program-level should cost estimate. Program manager (PM) recommends to MDA (AT&L/AAE) for approval.

• **When required?**
  All milestone decisions or other decisions going before OUSD(AT&L) and AAE; annual updates/progress reporting.

• **Which programs?**
  ACAT I, II and III

• **Intent:**
  - A DoD internal management tool used to incentivize performance to targets.
  - Based on realistic technical and schedule baselines and assumes success-oriented outcomes from implementation of efficiencies, lessons learned, and best practices.
  - Designed to drive productivity improvements in our programs and will incorporate results of contract direct and indirect cost reviews (See FAR 15.407-4 and DFARS 215-407-4 should-cost reviews) when they are conducted.
Should-Cost Definition
(What it’s not!)

• **What it is not:**
  - Not the FAR/DFARS definition of Should cost.
  - Broad challenges by management to reduce cost through straight reductions by a specified percentage or dollar value against the will-cost estimate are **not** valid should-cost estimates. Estimates are expected to have specific actionable content associated with reductions.
  - Anything requiring significant investment for completion and an increase to the budget is outside the scope of the should-cost estimate and should be shown separately for consideration.
  - Most items outside the control of the program office and inconsistent with the current program of record are outside excursions and not appropriate for the should-cost estimate. However, these can be raised with Stakeholder concurrence or if PM/PEO believes Senior Leaders will support implementation.
    • Example: economic production rates
**Efficiencies and Enhancements**

**Doing This**

- Training Range Management
- Service Contractor Efficiencies
- Workforce Management & 4,500 overhead positions
- MILCON
- Contract Management Efficiencies

**Streamlining operations and organizations**

- NLOS-LS Termination
- Abrams Upgrade
- SLAMRAAM Termination
- GCV – 6 month delay RDT&E
- GCV-Fixed price contract savings
- EIBCT Network
- Scorpion Termination
- Medium Altitude Reconnaissance & Surveillance Systems (MARSS)

**Reducing redundancies in weapons systems**

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**Reducing installation overhead & manpower program adjustments**

- Recruiting/Retention
- Installation Management
- Logistics Support (sustainment)
- Recruiting/Retention (O&M)
- Service Delivery

**To Sustain/Enhance**

**Forces & Structure**

- Fully Fund ES (MILPAY)
- Accelerate 13th CAB
- Convert 9th HBCT to SBCT

**Quality of Life**

- HHOP (Korea Family Housing)
- Army Substance Abuse Program (prevention/resiliency)

**Future Capabilities**

- JTRS Cluster 5 (Handheld)
- Tactical Networks
- Counter IED
- BCT UGV Increment 2
- Modernize Soldier Equipment
- Indirect Fire Protection
- JLTV
- UAS - MQ-1 Payload
- Combat Vehicles (Abrams/Bradley/Stryker)
- Add’l ISR (ERMP, Vertical UAS, MC-12)

**Readiness**

- RC OPTEMPO / FTS
- RADOC COEs
- Reduce PME Backlog
- Training Enhancements FSO
- BOS Life, Health, & Safety
- Installation QOL / ARFORGEN
- Energy Security (EISA)