2011 NDIA Executive Seminar
“Achieving Efficiency and Productivity Initiatives”
An Industry Perspective
Bob Murphy – EVP Products Sectors BAE Systems
A Challenging Environment

Global Economic Recovery is Still Fragile
  ▪ Japanese Crisis

The Worldwide Defense Market is in Decline….
  ▪ 20-30% Reduction over Next 5 Years

Still Engaged in Iraq and Afghanistan

Escalating Turbulence in the Mid-East and Northern Africa
  ▪ Supporting NATO in the Libya Mission

US Defense Budget Flat
  ▪ Sec Gates Seeking $100B in Savings over next 5 Years

Ongoing Continuing Resolution for 2011

The Environment is Dynamic…Change is Accelerating…
Be Lean, Agile & Ready to Adapt
Reducing Cost to Increase Agility

Represent All Industry
- Non-Attribution, No Names, No Numbers
- Small/Medium/Large Companies
- Manufacturers and Services

Present an Industry Wide Perspective
- Find the Themes Applicable to All
- Focus on the General Issues vs. Individual Issues

General Themes that Emerged
- Industry Welcomes OSD Focus On the Issue
- Understand and Support the Deficit Reduction Effort
- Working to Find A Win-Win Scenario
- Must Generate Profit to Serve Our Customers and Provide a Competitive Return to Shareholders
- Providing Required Products, Systems & Services at Fair and Reasonable Prices

Get Required Capability to the Fight as Efficiently as Possible!
Some Notable Industry Responses to the Challenge

**Overall**
- Implementing Cost Reduction wherever possible
- Reorganization as Required to Support the Market
  - Facility & Headcount Reductions
- Improve/Adopt Best Practices
  - Focus on Continuous Improvement to Deliver Commitments on Cost, Schedule & Technical Performance Consistently

**Large Business Specific**
- Implementation of Shared Services
- Changes in Benefit Packages
  - Modification to 401k/Pension Plans
  - Adoption of Aggressive Wellness Plans
  - Elimination of Some Benefits

**Medium/Small Businesses**
- Reduction/Elimination of 401k plans and Medical Benefits
- Elimination of All Benefits

Reduce G&A Cost…
But be Compliant with Regulatory Requirements
Industry Continuously Addresses Efficiency

Industry is Motivated by Markets to Reduce Cost

- Efficiencies Drive Improved Competitive Positions Enabling:
  - Reinvestment in the Business
  - A Reasonable Return to the Shareholders
- Efficiencies Enhance the Ability to Win Follow-on Contracts
- Continuous Efficiency Improvement is a Way of Life (Lean, Six Sigma, BPI)

Lessons Learned in Industry Can be Applied to the Government

- Bureaucracy is a Cultural Issue
  - Increased Surveillance is Not the Answer - Incentives Are
  - Bureaucracy Reduces Efficiencies & Stifles Productivity
  - Once Established, Extremely Difficult to Eliminate
- Requirements Creep
  - 80% Solution Now vs. 95% Solution Later – Later Never Comes….
- Excessive Testing
  - Testers are Incentivized to Test, rather than, Field Equipment

Reducing Cost Requires Actions From All Stakeholders to Change the Contracting Environment
Potential Regulatory Change to Enable Cost Reduction

- Refocus on Commercial Item Acquisition
  - FAR Part 12 vs. FAR Part 15 - Refine “Government Unique”

- Military Purpose Non-Developmental Items (MPNDI)
  - It is Proven – Rapid Fielding Initiative (RFI) & Rapid Equipping Force (REF)
  - It Encourages Product Development Using IRAD Dollars
  - Attracts Non-Traditional Suppliers – Increases Competition

- Consolidate Sub-Contracting Requirements to a “Total Enterprise” Metric
  - Individual Sub-Contracting Plans are Expensive for Everyone

- Consolidate DCAA and DCMA into a Single Entity – Speak with 1 Voice
  - ID & Eliminate Reporting Requirements Providing Minimal Value
  - Institute and Enforce Mandatory Timetables for Contract Administration
  - *There are Service Task Orders Open after 7 Years waiting for Audits*  

Elimination of Excessive Regulations & Reporting Will Reduce Cost & Increase Efficiencies
Other Ideas To Enable Cost Reduction

- Overhaul Export Control/FMS/FMF Process
  - Foreign Sales Augment Domestic Sales
  - Economies of Scale Reduce Cost to Everyone
- Performance Based vs. Progress Payments – More Efficient
- Price Analysis vs. Cost Analysis
- Reduce or Eliminate Incremental Funding of Service Contracts and Contract Options
  - Economies of Scale reduce Cost
- Reduce or Eliminate Testing when Possible
  - Zero Tolerance vs. Reasonable Assurance of Safety & Effectiveness
  - *Do Handcuffs need to be tested before MPs can use them?*
- Focus on Open System Architecture vs. Acquisition of Data Rights
  - Increases Flexibility for Future Competition
  - Maintains Developer IP Rights
  - Incentivizes Additional Product Development

Industry Focused on Serving the Warfighter’s Dynamic Requirements