

2011 NDIA Executive Seminar

*“Achieving Efficiency and Productivity Initiatives”
An Industry Perspective*

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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**