



Competitive Defense Contracting

When It Makes Sense
(and When It Doesn't)

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Executive Summary

Competition has become the mantra of the Department of Defense’s (DoD) acquisition corps. The Under Secretary of Defense for Acquisition, Technology & Logistics, Mr. Frank Kendall has gone on record saying “I think that nothing, nothing, works better than competition to drive cost down.” DoD has established metrics for competition, sort of like a quota system. Many more prime contracts are being competed. The idea is to the greatest extent possible to replicate the commercial marketplace.

Unfortunately, the defense marketplace does not resemble the ideal free market where competition produces optimal market efficiency. Indeed, there are reasons to believe that the competition goals set by DoD and the policies implemented to encourage competition are not contributing to acquisition cost savings. A recent study of the defense industrial base by the Center for Strategic and Budgetary Assessments concluded that efforts to increase competition based on the presumption “that the defense industry operates like a normal free market is not only unlikely to improve efficiency, but have often made things worse.”

The defense sector is really a state monopoly and should be treated as such. There are approaches to improving performance and reducing costs such as performance-based contracts. But to pretend that this sector can be a mirror of the commercial marketplace is wrong and ultimately counterproductive to the goals of reducing costs for defense goods.

There is a natural place for competition in the defense marketplace. In the early phases of a major program – concept definition, technology development and risk reduction – there is value in competition. DoD has experimented with continuing a second contractor through later program stages, including into full-rate production, with mixed results. Also, there are a range of goods and services that are commoditized and can be treated the same in the defense market as they are in the commercial world. Hence, the defense customer can use competition to achieve reduced price for a specified level of performance. This kind of competition is inherent in the products themselves and in their use. It is natural.

But for platforms, major weapons systems and networks, products that are likely to be in the force for decades and undergo repeated upgrades, certainty, reliability, quality and effectiveness must be the considered. Beyond a rather obvious point, competition for this set of goods and services is not natural but forced.

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Competitive Defense Contracting: When It Makes Sense (And When It Doesn't)

You know we're sitting on four million pounds of fuel, one nuclear weapon and a thing that has 270,000 moving parts built by the lowest bidder. Makes you feel good, doesn't it?

- Rockhound, *Armageddon*, 1998

On the Nature of Competition

Competition is a central principle to virtually all modern theories of biology, politics and economics. It is by competition that species, nations and civilizations advance. For Charles Darwin competition was about the survival of the fittest, a process that resulted, in the end, in Man himself.¹ There have been arguments made that the demise of the Neanderthal and the rise of Homo Sapiens was the result of the latter's better ability to organize themselves and compete for relatively scarce resources.

Politics too is very much about competition, the competition of ideas. A number of political theorists have referenced a "marketplace of ideas" in which the truth will emerge out of free, transparent public discourse. This competition in the marketplace of ideas depends on the ability to speak freely, without encumbrance or limitations. John Stuart Mill argues that free speech is crucial to the pursuit of truth, because discussion of different opinions serves to challenge and clarify beliefs. "Complete liberty of contradicting and disproving our opinion, is the very condition which justifies us in assuming its truth for purposes of action."²

Competition is one of the central organizing principles of American government. The Founding Fathers understood both the value of competition and the need to moderate its most extreme aspects. This is the essence of the Constitution. It forbids or at least limits the ability of government to restrict those activities that were precisely the most competitive: speech, religion, assembly and the law. At the same time, it creates structures and processes that not only permit but encourage competition. Our federal system explicitly limits the powers of the central government and provides considerable autonomy to the states. The national government is divided into three relatively independent branches, each one partially dependent on and partially independent of the others. In addition, the Legislative Branch is further divided into two chambers, each with separate powers. As James Madison made clear in the *Federalist Papers*, these divisions were explicitly intended to promote competition and prevent dictatorship. "The

¹ Charles Darwin, *The Origin of the Species*, Pacific Publishing, California, 2010, Chapter IV.

² John Stuart Mill, *On Liberty*, Dover Publications, Thrift Edition, 2002, p. 123.

accumulation of all powers, legislative, executive, and judiciary, in the same hands, whether of one, a few, or many, and whether hereditary, self-appointed, or elective, may justly be pronounced the very definition of tyranny.”³

We are most accustomed to think about competition as it applies to economic activities. The competition of buyers and sellers in a free market to cover the price of goods and services was at the core of Adam Smith’s seminal concept: the “invisible hand” that enhanced the general welfare.⁴ In economics, the advantages of competition are well understood. One principal advantage is an efficient allocation of resources. When many suppliers compete for the business of consumers, prices gravitate toward costs of production and scarce resources are used for those goods and services for which there is real demand. Competition thereby produces maximum economic value from given resources, uses resources efficiently to supply demand and provides the best results for the consumer. In addition, as Friedrich Hayek observed, competition is essential to producing accurate knowledge of the value of both the factors of production as well as the outputs of productive activities.⁵ Restricting economic competition interferes with the flow of information, thereby distorting prices and producing sub-optimal economic performance.

Competition can exist in many different types of economic systems. A free market economy is generally viewed as the one most supportive of the goal of maximizing competition. A free market is one in which individuals, both producers and consumers pursue their self-interest, information is readily accessible and accurate, capital, labor and goods move freely. It would seem logical that the freer the market, the more competition there is and the better the outcomes for all participants as well as society in general. There are a number of potential gains that result from increased market competition. These include:

- Lower prices for consumers
- A greater discipline on producers/suppliers to use resources more efficiently
- Improvements in technology and a faster pace of innovation
- A greater variety of products
- Improvements to the quality of service for consumers
- Better information for consumers allowing people to make more informed choices

There are other factors that can constrain the free market by limiting the process of competition. One of these is where there are only a limited number of sellers. This situation can occur where there are high barriers to entry, such as when the goods offered for sale are extremely sophisticated and difficult to produce with little opportunity for substitutions, or government policies restrict participation. Similarly, when there this is a limited group of buyers or the

³ James Madison, *Federalist Papers Number 47*.

⁴ Adam Smith, *The Wealth of Nations*, Digirread.com Publishing, 2009, Book III.

⁵ Friedrich A. Hayek, “The Uses of Knowledge in Society,” *The American Economic Review*, Vol. 35, No. 4, September, 1945.

buyers have the ability to control prices, the competitive landscape is skewed. This is considered a monopsony market.

Competition and the Defense Marketplace

Perhaps the best example of an imperfectly free market is the defense sector. Defense is a collective, not a private good. It is a monopsony with but a single buyer, one that not only imposes unique standards, rules and behaviors on sellers but also retains the right to change those rules, contracted quantities, etc., as it sees fit. The Pentagon's view is that the needs of the government take precedence over customary free market behavior, commercial best practices and even, on occasion, written contracts.

The nature of the demand signal in the defense sector, including the nature of the goods and products required, adds to market distortions in a number of ways. Demand is determined largely through an elaborate, even arcane, requirements process which, until very recently, did not even include cost as a first order criterion. Most of the specialized products the military requires have virtually no commercial counterparts, meaning that they are high cost with a relatively low demand. Even where the Department of Defense (DoD) seeks to acquire commercially-based products or platforms – e.g., aircraft engines or commercial derivative aircraft – the conditions associated with such procurements tend to increase their costs. The financial risks associated with being in the defense sector are significant and can pose a serious barrier to entry. An additional barrier to entry is the need for secrecy and to perform some work under controlled conditions.



Multi-year procurement contracts have saved the government millions of dollars. Pictured here, V-22 Osprey. (Image: U.S. Navy)

Were market imperfections solely the product of strategic decisions, operational imperatives or technical factors, they would be largely acceptable on their face. However, over time, the Executive and Legislative Branches have created a defense acquisition system which, in many ways, is the antithesis of a free market. This is a system that had its birth in World War Two and came to full flower in the Cold War. It is the wrong system for the realities of the 21st Century. There are massive numbers of regulations and specifications that apply to all defense work. These are estimated to add some 20 percent to the costs of everything that DoD buys. In addition, defense companies have to abide by a different accounting system than that used by

commercial firms. With respect to commercial derivative products, this second accounting system adds to the companies' costs.

In considering the conduct and performance of the defense industry it is critically important that one recognize the great degree of regulation present, in spite of the fact that defense is not normally listed as a regulated industry. This regulation is unique in kind, in that the regulator is also the buyer. With so much involvement on the part of the buyer in the operation of the supplier, there can be no free market at work. Yet the Department of Defense, the defense industry, and Congress continue to perpetuate the myth that a free market is in operation, and count on the invisible hand of this market to produce economic efficiency.⁶

The acquisition system failed to meet the demands of the wars in Iraq and Afghanistan. The requirements system did not anticipate the character of these conflicts or the needs they created. DoD had to create special organizations and processes such as the Rapid Fielding Initiative and the Rapid Equipping Force to get critical equipment to the warfighters. Organizations such as the Joint Improvised Explosive Device Defeat Organization were stood up to handle responses to complex new threats. During this same period, the Secretary of Defense announced the cancellation or restructuring of dozens of major weapons programs, providing a stark contrast between what worked and what didn't in defense acquisition.

More important, the acquisition system is increasingly out of sync with the modern industrial world. Critics of defense acquisition love to point to the commercial information technology industry which has an innovation cycle measured in months while the Pentagon's acquisition process generally takes years. But this same situation is true in many other areas. Defense no longer leads the nation in technology innovation. If anything, the present acquisition system stifles innovation. For example, the decision to make expanded use of the lowest price, technically acceptable (LPTA) standard in awarding contracts for what are considered mature products is driving competition and innovation out of the military market. LPTA forces bidders to bid at or even below cost to secure contracts with highly variable and uncertain demand. Winners who own marginally profitable businesses have little to no economic incentive to pursue technology upgrades. Despite the sincere call by defense officials for more competition, the acquisition system's rules, regulations, reporting requirements, decision processes and liability requirements make it increasingly difficult for dedicated defense companies to operate successfully.

Perfectly competitive markets minimize prices by squeezing out investment. The national economy needs innovators willing to invest in future advances rather than maximizing profit at given technological conditions and pricing. DoD is even more dependent than commercial buyers on the willingness of the private sector to take risks by innovating.⁷

⁶The Honorable Jacques S. Gansler, *The Defense Industry*, MIT Press, Cambridge, MA, 1980, p. 92.

⁷ William Lazonick, "What's 'Perfect' About Perfect Competition? A Prosperous Economy Needs Innovators," *The Huffington Post*, September 1, 2011.

It is ironic that the defense sector has been set so far apart from commercial markets that efforts to introduce more free market behaviors in the acquisition of defense goods and services can actually inhibit performance and increase costs. A recent study by the Center for Strategic and Budgetary Assessments concluded that efforts to increase competition within the defense industry based on the presumption “that the defense industry operates like a normal free market is not only unlikely to improve efficiency, but have often made things worse.”⁸

Acquisition Reform, Better Buying Power and Competition

President Obama came into office intent on reforming the federal acquisition process. Obama signed a memorandum intended to reshape the relationship between the private sector and the federal government. The President directed the Office of Management and Budget (OMB), *inter alia*, to develop and issue government-wide guidance to “govern the appropriate use and oversight of sole-source and other types of noncompetitive contracts and to maximize the use of full and open competition and other competitive procurement processes.”⁹ OMB published guidance to federal acquisition officials on October 27, 2009 that identified steps departments and agencies should take to increase competition and improve the structure of contracts. Among the suggestions made were for greater use of performance-based acquisitions and commercial solutions, maximization of competition at the task order level and limiting the length of contracts.¹⁰

At approximately the same time, Congress passed the Weapons Systems Acquisition Reform Act (WSARA) which directed the Department of Defense to implement a number of measures intended to encourage greater innovation and improved performance on the part of defense contractors. Section 202 of this law focused on initiatives intended to maximize competition through the life of a program such as competitive prototyping, dual-sourcing, funding of a second source for next generation technology, utilization of open architectures to ensure competition for upgrades, periodic competitions for subsystem upgrades and licensing of additional suppliers.¹¹

The Department of Defense responded to this direction from the Executive and Legislative Branches by formulating a broad reform initiative titled Better Buying Power (BBP). These

⁸ Barry Watts and Todd Harrison, *Sustaining Critical Sectors of the U.S. Defense Industrial Base*, The Center for Strategic and Budgetary Priorities, Washington, D.C., September 20, 2011, p. 17.

⁹ The White House, “Memorandum for the Heads of Executive Departments and Agencies, Subject: Government Contracting,” March 9, 2009.

¹⁰ Office of Federal Procurement Policy, “Increasing Competition and Structuring Contracts for the Best Results,” Office of Management and Budget, October 27, 2009.

¹¹ *Weapons Systems Acquisition Reform Act*, Section 202, Public Law 111-23, Government Printing Office, Washington, D.C., May 22, 2009.

reforms went far beyond the efforts of then-Secretary of Defense Robert Gates to find some \$100 billion in efficiencies from his department. As described by the then-Under Secretary of Defense for Acquisition, Technology and Logistics, Dr. Ashton Carter, the objective of the proposed reforms was to dramatically alter the cost curve with respect to the approximately \$400 billion of goods and services the Pentagon acquired each year.



C-17 Globemaster III engine sustainment is an example of the successful use of performance-based logistics contracts. (U.S. Air Force Photo)

... we have a continuing responsibility to procure the critical goods and services our forces need in the years ahead, but we will not have ever-increasing budgets to pay for them. We must therefore try to achieve what economists call productivity growth; in simple terms, TO DO MORE WITHOUT MORE [*capitalized in the original*].¹²

Better Buying Power identified some two dozen specific reforms grouped into five thematic clusters: target affordability and control cost growth, incentivize productivity and innovation in industry, promote real competition, improve tradecraft in services acquisition and reduce non-productive processes and bureaucracy. Under the heading “promote real competition,” the memorandum identified a number of specific actions:

- Present a competitive strategy at each program milestone
- Remove obstacles to competition
- Require open systems architectures and set rules for acquisition for technical data rights
- Increase dynamic small business role in defense marketplace competitions¹³

As part of the effort to reform the way DoD acquired services from the private sector, BBP directed acquisition officials to enhance competition by requiring more frequent recompetes of knowledge-based services. Single award service contracts were limited to a three year period while multiple award indefinite duration/indefinite quantity (ID/IQ) contracts were constrained to a five year maximum period of performance.

The defense department’s goals for the BBP initiative, to improve efficiency, boost productivity and reduce costs in the defense contracting arena for goods and services, were laudable in their own right. However, they were more appropriate for a free market in which demand, supply, cost and productivity are the forces shaping both price and quality of goods and services. In fact,

¹²Office of the Under Secretary of Defense, “Memorandum for Acquisition Professionals: Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending,” Department of Defense, September 14, 2010.

¹³*Ibid*, pp. 9-10.

senior Pentagon leaders repeatedly referenced the productivity increase and price declines experienced in the commercial economy, particularly that in mobile phones, in arguing for their efforts to inject greater competition into defense contracting.¹⁴

This assertion reflects government's lack of understanding of the character of the commercial marketplace. Mobile phones are made in quantities of hundreds of millions each year. Moreover, they are made in low wage countries. The large commercial vehicle makers produce millions of cars and trucks per year. These companies have integrated supply chains that employ major components such as engines and transmissions on a number of different platforms. Even the commercial aircraft manufacturers produce hundreds of thousands of airplanes over decades. Defense platforms and weapons systems are produced in relatively small quantities employing expensive, skilled labor.

The Better Buying Power initiative seeks to change what was a two-decade-long tacit agreement between DoD and the defense industry. Beginning in the early 1990s with the post-Cold War draw down, the major defense companies sought to maintain profitability, obtain a reasonable return on invested capital and continue to innovate by pursuing an economic model based on either vertical integration or systems integration, an expansion into aftermarket services and support of their products and the securing of long-term contracting periods. This evolution was undertaken with tacit government approval as demonstrated by the so-called "Last Supper" meeting between the top executives of the leading private sector defense companies and senior officials in DoD.¹⁵ Now, DoD is seeking to radically alter the rules for the defense market and, in particular, undermine corporate strategies and investments based on the maintenance of long-term relationships with their customers.

Moreover, many of the reforms set out in BBP reflect the presumption on the part of its creators and implementers that there is enormous space for companies to reduce their costs and that increased competition provides the necessary spur for them to take action. However, the real scope for cost reductions by defense companies may be much less than imagined, at least without severely impacting the value of the goods and services provided.

Historically, DoD customers have focused the bulk of their effort on pressuring contractors to reduce cost at the component- or element-level of a system . . . This usually comes in the form of trade studies to find cheaper components and negotiations regarding direct and indirect labor and materials costs. While these efforts have led to some savings, they fail to recognize that material and labor costs are, for the most part, not set by the contractor but rather driven by current market conditions. Moreover, at the point where material and labor costs are typically being scrutinized,

¹⁴Secretary of Defense Robert M. Gates and Under Secretary of Defense for Acquisition, Technology and Logistics Ashton Carter, "DOD Briefing on 'Better Buying Power,'" September 14, 2010.

¹⁵ John Deutch, "Consolidation of the U.S. Defense Industrial Base," *Acquisition Review Quarterly*, Fall 2001.

particularly in an LPTA setting, the vast majority of acquisition and lifecycle costs have been locked in by the baseline solution directed by the customer.¹⁶

Ironically, the basic assumptions underpinning BBP, that growing problems with the cost and schedules for major defense acquisition programs are the result of defense companies seeking to maximize profits and minimize investments and that, consequently, increased competition will reduce costs and improve performance, are not borne out by the historical evidence. According to a recent study, over the past 50 years there has not been an appreciable increase in schedule slippage or costs, excluding inflation, for major defense acquisitions programs.

One therefore cannot conclude on the basis of cost growth and schedule slippage then and now that the U.S. defense industry has become increasingly inefficient in recent decades. The core problem appears to be the steady growth in average unit costs. . . And the causes of this problem appear to be both persistent and complex. They include, at a minimum, the longstanding preferences of the military Services for state-of-the-art weaponry and the cost insensitivity built into the acquisition system both before and after source selection.¹⁷

Better Buying Power reflected less the adoption of free market principles than it did an effort to employ DoD's enormous leverage over private industry to restructure the buyer-seller relationship to meet the government's new policy objectives. As one knowledgeable analyst opined "Better Buying Power certainly reads like the monopsonist's playbook for defense in the 21st century." This source went on to observe that with respect to the goal of reducing costs and improving productivity through increasing competition, BBP was seeking two incompatible objectives.

. . . [*Under Secretary of Defense*] Carter plainly understands that he will not succeed at inducing private firms to undertake projects for which their expectation of returns does not cover their cost of capital. At the same time, it's equally plain that he wants to change the customary business model of defense procurement from one characterized by level-of-effort resource management and predictable margins over long contract durations to one that puts a higher premium on flexible assets and risk management practices to enable firms that carefully manage costs to earn high returns. The tension between these two objectives illustrates the classic dilemma faced by a customer with market power who wants to drive prices as close to marginal cost as possible while at the same time incentivizing commitment, quality, and innovation. This monopsonist's dilemma is most sharply framed in the memorandum's direction to formulate acquisition strategies that involve competition at each milestone in development.¹⁸

No acquisition official, program executive officer or contracting officer could fail to note the stress on competition in BBP documents and statements by leaders in the Office of the Secretary of Defense (OSD). The term was used some 50 times in the guidance memorandum. In

¹⁶Jim Tinsley and Jim Thompson, "Helping the DoD Solve Its Affordability Challenge," December 5, 2012 at <http://www.avascent.com/helping-the-dod-solve-its-affordability-challenge>.

¹⁷Watts and Harrison, *op cit.*, p. 24.

¹⁸Steven Grundman, "The Monopsonist's Dilemma: Implications for the Defense Industry of Better Buying Power at the Pentagon," *CRA Insights: Aerospace and Defense*, October 2010.

addition, OSD's guidance explicitly stated that full-and-open solicitations that attract only a single offer were to be deemed as "ineffective competitions" insofar as they did not meet the standard of "adequate price competition." It was not difficult for government officials to conclude that one measure of their success would be the number of competitive solicitations conducted regardless of whether or not the outcome was reduced prices to the government or improved performance by the contractor.

To attain cost reductions across successive competitive procurements, more and more solicitations were structured so that the winner was determined based on the standard of the lowest price, technically acceptable offer. Under LPTA bidders had to meet a minimum threshold with respect to competence and proposed work programs. Factors traditionally employed in determining best value to the government (a bidder's past performance, technical approach, management plan, ability to exceed minimum requirements, etc.) are not considered. Consequently, LPTA solicitations became "price shootouts" that allowed minimally qualified bidders to become credible candidates and produced a race to the bottom as bidders focused on cutting capabilities in excess of those needed to meet minimally acceptable performance standards.¹⁹



The Army's multi-year procurement contracts for the CH-47 Chinook and the UH-60 Black Hawk are expected to result in hundreds of millions of dollars in savings compared to annual purchases. (Image: U.S. Army)

The Department of Defense has set targets for each of the military services regarding the percentage of contracts that need to be awarded competitively. Industry sources reported continual solicitations to submit bids on contracts that the contracting officers acknowledged were likely not of interest to the recipients but they are under pressure to meet these goals. There have been reports of program managers creating a competition by encouraging and even helping to develop a second bidder for a particular product or service. This draws out the contracting process and often wastes both public and private funds if the second bidder is only marginally qualified.

Ironically, the effort to inject greater competition by limiting the period of performance of single award service contracts to no more than three years may well have resulted in a loss of value and

¹⁹ Alan Chvotkin, "When 'Low Price Technical Acceptable' is Unacceptable," *Washington Business Journal*, November 2, 2011; Bob Lohfeld, "Will Low-Priced Contracting make us all Losers?" *Washington Technology*, June 4, 2012; and Matthew Weigelt, "Industry Resists Government's Push for Low Prices," *Federal Computer Week*, October 4, 2012.

productivity. A winner has only a limited amount of time to recoup the costs of competing, learn the business and gear up for the next competition. This creates churn in the contracting process, adds to costs and even risks poor performance. Were this not bad enough, in order to meet “quotas” with respect to competition, the acquisition system has been shortening the period of performance on service contracts to as little as a single year. But this approach does improve the quantitative measures of success against which the performance of acquisition officials is measured.

Two years into the acquisition reform effort, DoD published a revised version of its acquisition reform initiatives under the title Better Buying Power 2.0. In it, the department sought to address some of the flaws in the original document as well as address ways in which the acquisition system had misunderstood their guidance. In particular, BBP 2.0 sought to soften a number of the rigidities that had arisen in the acquisition community with respect to the effort to increase competition in contracting. It is noteworthy that BBP 2.0 revised the earlier definition of its initiative on competition from “Promote Real Competition” to “Promote Effective Competition.” The revised guidance encouraged contracting officials to employ the full range of available types of contracts rather than focusing primarily on fixed price arrangements. It required solicitations to better define value in best-value competitions and to ensure that when a competition is based on LPTA that the definition of technically acceptable is broad enough to ensure needed quality.

Under Secretary of Defense for Acquisition, Logistics and Technology (AT&L) Kendall characterized the department’s more nuanced view of competition as reflected in BBP 2.0 thusly:

Competition – effective competition is the single best way to reduce costs, and we'll continue the emphasis on that. I'd like to talk about a competitive environment when we were doing Better Buying Power 1.0. The idea here is that even if you don't have direct head-to-head competition, we can still have a competitive environment where the incumbent is worried about losing the business, or at least sub-tier people are worried about losing the business. And maybe you can get real competition, you know, head-to-head competition below the top tier.²⁰

On the Limits to Competition in Defense Acquisition

How should the value of competition in a constrained market be understood? It is clear that the defense department gains when there is competition among suppliers to provide goods and services. It does not follow, however, that increased competition will always result in increased value or ongoing cost reductions. There is a point at which increasing the level or frequency of competitions result in greater costs and/or decreasing value to the government. This is particularly the case when the full cost of competitions, including those incurred by the government and companies to undertake and manage the competitive process is included. More

²⁰Under Secretary of Defense for Acquisition, Technology and Logistics Frank Kendall, “DoD News Briefing on Better Buying Power 2.0,” Department of Defense, November 13, 2012.

than 25 years ago, the Packard Commission warned against the pursuit of competition for its own sake. “More competition, is beneficial, but the mechanistic pursuit of competition for its own sake would be inefficient and sacrifice quality--with harmful results.”²¹

Ultimately, badly structured or too frequent competitions can create perverse disincentives for suppliers to compete. Shortened contract periods increase opportunities for competition but may be too short for contractors to recoup investment in innovations. Contract periods can be shorter than the typical maintenance interval for ships, tanks, aircraft, and engines. Therefore, any durability/reliability/economic investment that does not extend maintenance intervals out of the contract provides no incentive to the contractor to invest its own resources to improve performance or provide innovation.

Without question there is an important role for competition among private sector companies – and even between public and private entities in the defense industrial base. But what kinds of competitions and under what terms? According to former Under Secretary of Defense for AT&L, Jacques Gansler:

Competition, for its own sake, or of the wrong form, is expensive and ineffective – so arbitrarily mandating it is wrong; but “smart competition” (where properly applied – including even the “credible threat” of applying it) will have huge payoffs (from the incentives created) in higher quality, better performance, and reduced costs – so it must be fully utilized.²²

What then constitutes, to borrow Gansler’s term, “smart competition” and what constitutes “dumb competition”? In part, being smart requires understanding both the nature of the defense market and the goods and services DoD demands. Competition in traditional markets arises when buyers and sellers are numerous and individually unable to influence the market by their individual actions. A great majority of DoD procurement actions are in such a market. In fact, a large fraction of defense department acquisitions are for commercial goods and services. In some cases DoD is not even the largest buyer.

However, the majority of procurement dollars are spent on major weapons systems. These most often are unique products with no major customer other than the U.S. government, generally procured in relatively small numbers over a protracted period of time and retained in inventory for decades. These systems must be capable of responding not only to the current environment

²¹ *A Quest for Excellence*, The Final Report of the President’s Blue Ribbon Commission on Defense Management, June, 1986, p. xxiii.

²²The Honorable Jacques S. Gansler, “Effective (‘Smart’) and Ineffective (‘Dumb’) Competition in Defense Acquisition,” *The Limits of Competition in Defense Acquisition*, Defense Acquisition University September 18, 2012.

and threats but to future, often unpredictable environment and threat changes. As a result, such procurements present unique problems with respect to the creation of a competitive contracting environment.

The market for major weapons systems is highly segmented. One segment consists of a few, high technology firms with extensive experience in defense acquisitions who bid against one another for a relatively small number of large, long-term and very sophisticated programs. A second segment consists of a large and changing number of relatively unsophisticated and low cost suppliers competing for significant service and commodity purchases. Then there is the smaller segment involving highly specialized niche products provided by a handful of companies, usually highly trusted agents with long experience working for their particular customers.²³ Even here it should be recognized that technology advances, resulting in product groups that were once considered commodity items purchased solely on the basis of lowest price, can evolve into more sophisticated and complex products – and vice versa – that will require a different acquisition strategy.²⁴

Another consideration is the Pentagon's need for confidence in the quality and behavior of the goods and services it acquires. This results in performance and reliability specifications for defense products and services different from and more expensive than otherwise identical commercial items. Moreover, major defense end items (e.g., ships, planes, vehicles, communications systems, munitions) tend to remain in the force for decades – the remaining active B-52s are about 50 years old and will be almost 80 when finally retired in 2040. Supporting and modernizing such systems requires extensive familiarity with them as well as the ability to integrate new components and subsystems with other, older ones and, often, unique investments in tooling, training and production processes. As a result, at the system and platform level there are very high barriers to entry, increased costs for potential new entrants, making them uncompetitive and negating the relevance of competition. Short contract periods exaggerate the problem and raise barriers because potential bidders must recoup startup costs within the shorter contract and thus increase pricing.

There is substantial evidence to support the contention that competition can lower prices and even improve performance under certain circumstances. This is clearly the case for commodity items, particularly commercial goods, or high volume items with high variable costs.²⁵ DoD also has had some notable successes in using the General Services Administration Schedules to

²³*Ibid*, p. 8.

²⁴On this phenomenon as applied to the area of soldier clothing see Daniel Goure, *Dressing For Success: Equipping the 21st Century Warfighter Quickly and Efficiently*, Lexington Institute, April 5, 2011.

²⁵ Defense Science Board Task Force on International Defense Cooperation, *International Armaments Cooperation in an Era of Coalition Security*, Department of Defense, August 1996, Appendix G.

acquire a broad range of commercial goods and services, as well as by the selective use of ID/IQ contracts.²⁶

The evidence is less clear when the competitions involve goods for which DoD is the only customer, particularly if the number of units being produced is constrained. The theory of market economics would argue that competitions involving small production runs of highly specialized products – generally the case for major weapons systems – would not produce the kind of cost reductions and performance improvements DoD is seeking. Past studies of the potential for increased competition in unique defense goods to reduce prices have tended to focus largely on second or dual sourcing for products, primarily munitions, with relatively high production runs.²⁷ One recent analysis pointed out that for most major weapons systems and platforms:

Even if separate sources were preserved throughout production, the small quantities the government procures these days would probably not allow either competitor to get far enough down its learning curve to yield savings greater than the costs of funding a second source. In fact, if the competition were to be staged as a multi-round split buy (with, say, 60 percent going to the winner and 40 percent to the loser each round), then the cost advantage obtained by the winner of the first round by being able to progress further down the learning curve could make it impossible for the loser of the first round to win any subsequent rounds.²⁸

A number of analyses have pointed out additional deficiencies in the dual-sourcing model, such as the cost to the government of conducting a second competition and managing two contractors, additional overhead costs and other non-recurring charges by the second source and the need to provide a minimum sustaining amount of work to the losing (higher price) contractor.²⁹ Former Lockheed Martin Chief Executive Officer Norman Augustine argued from the perspective of the private sector that dual sourcing also had the potential for negative effects such as “needless adversarialism, additional complexities, and greater inefficiencies.”³⁰

The debate over a second engine source for the Joint Strike Fighter illustrates many of the uncertainties and pitfalls associated with relying on increased competition to reduce the cost of defense goods. Proponents point to DoD’s decision in the 1980’s to maintain both Pratt & Whitney and General Electric as competing producers of different engines for F-15 and F-16 fighters. Continuing competition resulted in an estimated \$2-3 billion in net savings over 20

²⁶ Daniel Goure, *Towards a 21st Century Defense Logistics Enterprise*, Lexington Institute, February 7, 2013.

²⁷ Gansler, “Effective and Ineffective Competition,” *op.cit.* pp. 11-16.

²⁸ Watts and Harrison, *op. cit.*

²⁹ Mark Arena and John Bikler, *Determining When Competition Is a Reasonable Strategy for the Production Phase of Defense Acquisition*, RAND Corporation, Santa Monica, CA, 2009; Dan Boger, Willis Greer and Shu Liao, *Competitive Weapons System Acquisition: Myths and Facts*, Naval Postgraduate School, March 1989.

³⁰ Norman Augustine and Robert Trimble, “Procurement Competition at Work: The Manufacturer’s Experience,” *Yale Journal of Regulation*, Summer 1989.

years as well as improved engine reliability.³¹ Carrying this experience forward to the present, the Government Accountability Office projected costs savings of approximately \$2.6 billion if DoD maintained two sources of engines for the Joint Strike Fighter.³²

Critics of the proposal, including then-Secretary of Defense Robert Gates, argued that even if the anticipated savings could be realized, and this was disputed, there were other costs and disincentives to a second source that had to be considered. Foremost among these was the requirement to spend approximately \$2.9 billion to bring the second engine to a fully competitive state, a figure which exceeded the expected savings from maintaining a second source. Also, there were the costs associated with maintaining two production lines, two supply networks, and two workforces while reducing the volume of work given to either supplier.³³

One of the mistakes made in repeated efforts to inject greater competition to the defense market is to assume as BBP does that the creation of a second source for a particular good or service

automatically creates conditions analogous to competition in the free market. There is increasing evidence that dual sourcing can result in inflated initial bids in order to insure that even if they are the loser they will be a “happy” loser.

. . . the way in which a competition is structured can be a determining factor in whether competitive pressure is sufficient to balance the additional development costs of multiple contractors and higher unit costs from splitting the award. Specifically, the way contractors are incentivized to bid (or not bid) depends on the number of rounds of competition, the number of units awarded in each round, and the split in award between the winner and loser for each round.³⁴



The Navy’s *Virginia*-class submarine program has set the standard with respect to the returns to the government from a long-term contractual relationship with the supplier. (Image: U.S. Navy)

Even strong advocates for competition in the defense sector acknowledge that there are a number of other inefficient/ineffective or “dumb” competition strategies, some being pursued currently by DoD. These include:

³¹ Gansler, “Effective and Ineffective Competition,” *op.cit.* p. 17.

³² Government Accountability Office, *Analysis of Costs for the Joint Strike Fighter Engine Program*, GAO-07-656T, March 22, 2007.

³³ Lawrence Korb and Loren Thompson, “Buying Second Engine For F-35 Wastes Money, Hurts Military,” *Issue Brief*, Lexington Institute, May 25, 2010; Watts and Harrison, *op. cit.*, p 17.

³⁴ Todd Harrison, “The Effects of Competition on Defense Acquisition,” *The Limits of Competition in Defense Acquisition*, Defense Acquisition University Research Symposium, September 2012, p. 1.

- Low price, technically acceptable competitions when applied to “mission critical” goods and high-knowledge-content services
- ID/IQ contracts that award places to a large number of winners while requiring all winners to bid on every task regardless of their competencies and resources
- Contracts where the government is the integrator and companies compete for subsystem work
- Competition based on providing to a second and subsequent competitors the private or commercial intellectual property held by an incumbent
- Competitive solicitations based on access to proprietary intellectual property or commercial cost and pricing data (for non-developmental products)³⁵

One could easily add to this list the pursuit of short-term contracts involving high-knowledge services or sophisticated products. Short contracts significantly increase overhead cost, may lead to permanent proposal activity interfering with performance, and in many cases could actually result in less competition because proposal costs and startup investment that must be recovered over the short contract may make it impossible for potential new bidders to make the business case for participating. In addition, because inherent maintenance intervals of capital equipment are often measured in years, short contracts eliminate the incentive to invest in durability and performance improvements since investments cannot be recovered during the period of the contract. Thus, short contracts have poor potential for reducing costs over the equipment life cycle.

A more fruitful place for DoD to pursue reduced prices is by encouraging the private sector to make the most of its natural tendency to seek reduced costs through increased competition at the subsystem and component levels. The drive by original equipment manufacturers to control costs has led them to outsource the majority of their actual production. According to industry surveys, 60 to 70 percent of work on defense contracts is now done by subcontractors. The 2009 WSARA directed the Secretary of Defense to require prime contractors to give full and fair consideration to qualified sources other than the prime contractor for the development or construction of major subsystems and components of major weapons systems.³⁶

It is important to realize that significant savings and productivity increases have been achieved by programs that leverage the inherent advantages in longer-term contractual relationships. Multi-year procurements and block buys allow for cost reductions based on economical rates of purchase and production, stable production scheduling and the ability to move down the learning curve. The Army's multi-year helicopter procurement contracts for the CH-47 Chinook and the UH-60 Black Hawk are expected to result in hundreds of millions of dollars in savings compared

³⁵ Gansler, “Effective and Ineffective Competition,” *op.cit.*, pp. 33-34.

³⁶ Government Accountability Office, *Defense Guidance: Additional Guidance Needed to Improve Visibility into the Structure and Management of Major Weapon System Subcontracts*, GAO-11-61R, Washington, D.C., October 28, 2010.

to annual purchases. Similar results have been achieved from past multi-year contracts for the F/A-18 E/F fighter and the V-22 Osprey.

The Navy's *Virginia*-class submarine program has set the standard with respect to the returns to the government from a long-term contractual relationship with the supplier. Rather than competition, the Navy has employed a workshare arrangement between Electric Boat and Huntington Ingalls with incentives for improved performance and reduced cost. Over three multi-year procurements, the program has improved productivity by more than a million man hours and lowered costs by more than 13 percent. As a result, the 2014-2018 multi-year calls for acquiring two boats a year instead of one. The long-term relationship between the two companies, their subcontractors and the Navy has also permitted the latter to insert new technology in each subsequent multi-year without increasing costs or reducing productivity.³⁷

Better Buying Power 2.0 explicitly acknowledged the value of performance-based logistics (PBL) contracts, marking something of a reversal of DoD prior policy which sought to reduce the number of PBL-based sustainment contracts in favor of greater insourcing. What is most significant about this policy change is that PBL-based contracts tend to be of significantly longer duration than the three year limit desired by BBP. Longer contracts are a prerequisite to incentivizing supplier investment with potential for lowering costs. DoD's own analysis of the cost savings associated with PBL-based arrangements showed clearly how long-term contracts are critical to providing the mechanism which provides performance improvements and cost reductions.³⁸

One area where the evidence clearly supports the thesis that competition can both reduce costs and increase productivity is between the public and private parts of the defense industrial base. Numerous studies have demonstrated that the cost of public sector workers is on average significantly higher than that of equivalent private sector employees.³⁹ The evidence from literally thousands of A-76 public-private competitions has been significant productivity improvements and reduced costs.⁴⁰ Since 2009 Congress has prohibited any new A-76 competitions.

Moreover, current government policies with respect to competition involving the public defense industrial base stand in direct contradiction to the enthusiasm with which DoD is pressing for

³⁷ Ronald O'Rourke, *Navy Virginia (SSN-774) Class Attack Submarine Procurement: Background and Issues for Congress*, Congressional Research Service, RL32418, March 13, 2013.

³⁸ John Boyce and Allan Banghart, "Performance Based Logistics and Project Proof Point," *Defense AT&L*, March-April, 2012.

³⁹ Congressional Budget Office, *Comparing the Compensation of Federal and Private-Sector Employees*, January 2012; Chris Edwards, *Overpaid Federal Workers*, CATO Institute, June 2010; James Sherk, "Inflated Federal Pay: How Americans Are Overtaxed to Overpay the Civil Service," Center for Data Analysis Report #10-05, July 7, 2010.

⁴⁰ Gansler, "Effective and Ineffective Competition," *op.cit.*, pp. 24-27.

competition among private sector entities. The public sector facilities, depots and air logistics centers occupy a protected niche. They are prohibited from competing amongst themselves for additional work. They are guaranteed by law (10 USC 2466) 50 percent of all depot maintenance dollars. When business case analyses are performed to judge the cost savings from insourcing private sector work, the public sector cost figures do not reflect the fully burdened rates while those for the private sector do.⁴¹

Despite the overt enthusiasm for increased private sector competition in defense contracting, a recent Government Accountability Office (GAO) study concluded that the Pentagon actually held fewer competitions for contracts in 2012 than in 2008, before BBP was formulated. The study reported that “the majority of the noncompetitive awards cited the availability of only one responsible source to meet the government’s needs as the reason for using noncompetitive procedures.” This trend occurred despite the fact that under the BBP initiative officials considered any solicitation in which DoD received just one bid an “ineffective competition” and required the contracting officer to revamp the requirements and put the work out for bid for another month. It is possible that this reflects a natural leveling off of the competitive process at between two thirds and three quarters of all DoD contracts. It is also possible that the decline in competition rate might be due to an increasingly hostile defense environment and exit of the industry by potential bidders. It is also noteworthy that the GAO study went on criticize the Pentagon for not maintaining reliable records that supported the decision of contracting authorities that a non-competitive award was reasonable because only a single company was capable of performing the required work.⁴²

As suggested by the GAO’s analysis and the revisions to BBP, there are practical limits to the use of competition in defense contracting to reduce prices and improve quality. For commodity items, including even military goods characterized by large production lots with relatively low technology, such as some munitions, competition based on price appears to be “smart” acquisition. For all other defense goods and services there needs to be a careful balance established between price and performance, essentially defining “best value” to the Pentagon.

There also are limits other than cost-effectiveness to the application of the competition model to the defense marketplace necessitated by the nature of the products and services being acquired and the conditions under which they will be employed. Ultimately, the platforms, systems and products DoD acquires are intended to support and sustain U.S. military personnel in combat. The military must maintain the effectiveness of its platforms, weapons systems and networks over decades against changing threats and as force structure and even component technologies

⁴¹ Office of Cost Estimation and Program Evaluation, “Estimating and Comparing the Full Costs of Civilian and Military Manpower and Contract Support,” *Directive-Type Memorandum (DTM) 09-007*, January 29, 2010.

⁴² Government Accountability Office, *Defense Contracting: Action Needed to Improve Competition*, GAO-13-325, Washington, D.C., March 2013.

evolve. Past performance, unique experience, data, intellectual property and even special personnel all are factors that should be taken into account when determining outcomes of solicitations. It logically follows that for products and services that are not commoditized, bidders are judged equal with respect to the appropriate set of qualitative factors.

However DoD at times has exhibited a conflicted attitude towards accessing the private sector's unique skills and capabilities. For example, DoD has increased efforts to obtain intellectual property rights from suppliers for distribution to competitors. But intellectual property (including patents, licensing, copyrights, and trade secrets) are critical to business. For some companies, especially technology companies and small businesses, these tools represent the bulk of company assets, as well as competitive advantage that protects their survival. The House Armed Services Committee in 2012 recognized that the need to protect assets discourages industry from offering their products or technology to government, thus potentially depriving government access to the latest technology.⁴³

Natural versus Forced Competition in Defense Acquisition

Competition is the natural state of affairs in a free market. In an imperfect market, competition is restricted and buyers must, in theory, pay a higher price for the goods and services they desire. The natural state of the defense market is distinct from that which operates in the rest of the U.S. economy. As discussed above, there is only one customer with a plethora of unique regulations, reporting requirements, oversight regimes and laws. These create high barriers to entry and, ironically, limit the free flow of information between the buyer and supplier. There is also a high degree of uncertainty in the system driven by government behaviors.

Defense acquisition is more than just an imperfect market. It is one deliberately structured to give significant, even predominant, consideration to non-economic factors. While budgets and, hence, the price of goods and services do influence strategy and acquisition policies, they are not paramount in the planning process. There has always been an emphasis in defense acquisitions on effectiveness over efficiency. It is a core assumption in U.S. defense planning that the military will maintain a qualitative edge vis-à-vis potential adversaries.

The rules which apply to the rest of the economy can be applied to the defense sector but only selectively and with care. The use of competition to reduce price and improve productivity makes sense only so far as it does not interfere with the pursuit of effectiveness. In some areas, such as IT, the commercial market has achieved levels of both efficiency and effectiveness far beyond what is available in the defense marketplace. But for most defense-unique goods and services, particularly platforms, weapons systems and major subsystems, there are no

⁴³ House Armed Services Committee, *Challenges to Doing Business with the Department of Defense*, March 19, 2012.

commercial counterparts, production runs are extremely limited, and the standards of performance for these products are higher than in the commercial marketplace.

There is a natural place for competition in the defense marketplace. In the early phases of a major program – concept definition, technology development and risk reduction – there is value in competition. DoD has experimented with continuing a second contractor through later program stages, including into full-rate production with mixed results. Moreover, sustaining competition by maintaining two contractors imposes other costs on DoD. Generally, the most cost-effective way of ensuring a degree of competition is at the program level with two or three companies retaining the design and production skills necessary in order to pursue major procurements.

There are a range of goods and services that are commoditized and can be treated the same in the defense market as they are in the commercial world. These goods and services do not require the levels of performance and reliability expected in weapons systems. Hence, the defense customer can use competition to achieve reduced price for a specified level of performance. In fact, for such items costs can be reduced and productivity improved by reducing defense-unique regulations, accounting procedures, purchasing methods and oversight requirements. This kind of competition is inherent in the products themselves and in their use. It is natural.

But for platforms, major weapons systems and networks, products that are likely to be in the force for decades and undergo repeated upgrades, certainty, reliability, quality and effectiveness must be considered. Applying the standards of the commercial marketplace with respect to competition to these products carries with it serious risk to the warfighter. Beyond a rather obvious point, competition for this set of goods and services is not natural but forced. No less a source than the Packard Commission made this point quite eloquently in 1986:



The Aegis-class destroyer USS *Hopper* (DDG 70) launches a Standard Missile 3 Blk IA. (U.S. Navy Photo)

Price should not be the sole determinant, especially for procurement of complex systems and services. Defense procurement tends to concentrate heavily on selecting the lowest price offeror, but too often poorly serves or even ignores other important objectives.⁴⁴

⁴⁴ *The Quest for Excellence*, op.cit.,p. 62

In fact, it can be argued that collaboration between government and the private sector rather than competition is the customary and even natural state for the defense sector. The Arsenal of Democracy that won World War Two was based on U.S. commercial manufacturing capabilities and managed by private companies in collaboration with the U.S. government. The modern defense industrial base arose in response to the demand from DoD for companies that, in close collaboration with their customer, could design, produce and sustain for decades cutting edge military capabilities.⁴⁵ As military systems become more complex, incorporating a mix of commercial and military unique technologies, the need for collaboration will only increase. As the Government Accountability Office noted in a recent study, this collaboration must include Congress as well as DoD and industry.

To better ensure Warfighter capabilities are delivered when needed and as promised, incentives must encourage a disciplined, knowledge-based approach and a true partnership with shared goals must be developed among the department, the military services, the Congress, and the defense industry.⁴⁶

It is precisely because of the unique characteristics of national defense that trust, reliability and collaboration should weigh heavily in the government's determination of value. Administrations come and go but the Pentagon and the responsibility to provide for the nation's security is continuous. Value must be assigned to companies that have been in the defense sector for the long haul, have a proven track record, use their own money to make their own investments in infrastructure processes and people to improve their performance and who are disposed to treat their government client as a collaborator rather than just a customer.

Collaboration between government and industry can produce incredible results. The creation of the nuclear Navy and the "invention" of the nuclear submarine was the result of the long-term collaboration between that service and the nuclear reactor and shipbuilding industries. Of course it did not hurt that Admiral Hyman Rickover, who directed the original development of naval nuclear propulsion, controlled its operations for three decades as director of Naval Reactors. Today, there is no more collaborative relationship in the defense sector than that between the Navy's Strategic Systems Programs and the two companies that together build the *Virginia*-class nuclear attack submarine, General Dynamics and Huntington Ingalls.

Another example is the Navy's Aegis program. Begun in the 1970s, it has provided excellent results for some 40 years, going through generation after generation of upgrades and improvements including the new Baseline 9 combat system which supports not only both the new anti-air Standard Missile 6 and the anti-ballistic missile-capable Standard Missile 3 but also

⁴⁵ Steve Mills, Scott Fouse and Allan Green, "Creating and Sustaining an Effective Government-Defense Industry Partnership," *Defense AT&L Magazine*, July 2011.

⁴⁶ Government Accountability Office, *Defense acquisitions: Fundamental changes are needed to improve weapon program outcomes*, GAO-08-1159T, September 2008.

the Naval Integrated Fire Control-Counter Air system. The inheritor of the original Aegis program, Lockheed Martin, has continued the collaborative relationship with the Navy begun by the first program manager, Admiral Wayne Meyer, who famously told government and private contractors to throw their badges in the trash. A succession of Navy leaders, including recently retired Admirals Kathleen Paige and Brad Hicks at the Missile Defense Agency, maintained this close collaboration. This collaborative environment was a principal reason why the Obama Administration was confident in proposing its Phased Adaptive Architecture in 2010, the centerpiece of which is the deployment of the Aegis Ashore Missile Defense System in only five years.

Close collaboration and continuity on both the government and corporate side allowed these programs to take bold steps, manage a host of risks and resolve problems. Unnecessary or too frequent competition can stifle such a relationship. Government officials cannot be free and candid for fear of impact on perception of fair and open competition. Company personnel have to be concerned about holding some ideas and information back for the next proposal. As a result, the government may think it is getting a better deal by creating a more competitive environment but it may actually be getting much less than it bargained for.

There is evidence that supports the contention that collaboration can actually reduce costs while it is sustaining effectiveness and improving productivity. Studies have demonstrated that collaboration can reduce the very high transactional costs in the defense marketplace, thereby bringing down the costs of goods and services. While defense acquisition officials point to the role of competition in the commercial market in reducing prices and improving productivity they almost never remark on the other major tool the commercial world employs for achieving those same ends: long-term partnerships. Whether it is the Japanese Keiretsu, the Korean Chaebols or more simply, WalMart's global supply chain, long-term relationships provide stability, predictability, communication, cost management and productivity improvements.

Contracting among private-sector organizations is increasingly relational. "Relational contracting" is when buyers and suppliers make long-term commitments that facilitate trust and cooperation. Rather than treating each contract as a one-time event that must be closely monitored, the focus is on developing a long-term relationship across a series of contracts. Less oversight is needed because the relationship itself is valuable; it is not something suppliers will put at risk. The result is that rather than hoarding information to protect against exploitation, information and data are exchanged so that both sides can perform their roles better.⁴⁷

Weapons programs that pursue incremental improvement through spiral development and technology insertion see continuous price declines coupled with improvements in performance. The Aegis weapons system is emblematic of this phenomenon. Over some 40 years and across nine generations, the program has added capability including now advanced missile defense

⁴⁷ T. Russell Crook, et al., "Cutting Fat without Cutting Substance," *Contract Management*, May 2012

while reducing unit cost by about two thirds measured in constant dollars. This achievement took place even as the program shifted from military specification computers and proprietary software to commercial-off-the-shelf computers and an open architecture.

The Department of Defense's effort to make the acquisition system more efficient will not be successful if it assumes a "one size fits all" model with respect to competition. There is a natural place for greater competition, in those areas where the nature of the goods and services being procured lends itself to this modality of cost cutting and the risk to performance is relatively low. For the procurement and sustainment of platforms, major weapons systems and networks, the drive for enhanced competition is being forced on the system and is likely to result in higher costs and reduced performance.

Glossary of Terms

AT&L	Acquisitions, Technology and Logistics
BBP	Better Buying Power
DoD	U.S. Department of Defense
GAO	Government Accountability Office
ID/IQ	Indefinite Duration / Indefinite Quantity
IT	Information Technology
LPTA	Lowest Price, Technically Acceptable
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
PBL	Performance-Based Logistics
WSARA	Weapons Systems Acquisition Reform Act



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