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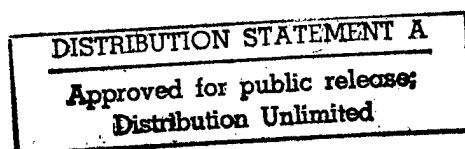
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"DOD Single Process Initiative"

**Keynote Address of
The Under Secretary of Defense for Acquisition and Technology
Honorable Paul G. Kaminski**

**to the
Lockheed-Martin Common Processes Conference
Marriott Crystal Gateway, Arlington VA**

January 18, 1996

Ladies and gentlemen, it's a great pleasure to be with you here this morning. . . the Government and Lockheed-Martin representatives present in the audience today are clearly demonstrating your commitment to the Department's single process initiative. Thank you for your proactive approach.

From an acquisition reform perspective, this is a very important time for all of us. When I attend a meeting like this, I find that I benefit enormously from my interaction with all of you, so I plan to leave time for questions and answers. This type of interaction is important to me.

When it comes to meaningful procurement reform, it has been my sense that it is easy to talk about why; harder to talk about how; and even harder *to do*.

In June of 1994, the DOD took a major step towards implementing real reform by authorizing the use of commercial specifications and standards. But those changes--as important as they were--effectively applied to new contracts only. We have now taken the next major step toward reforming DOD purchasing practices. Last month, I approved guidance implementing a "single process initiative" to reduce the number of government-imposed processes on existing contracts.

This initiative addresses a very real problem--its implementation requires a streamlined approach so that we can get it done quickly, and so that we can begin to benefit from the savings and the cost avoidance associated, sooner rather than later.

I launched this initiative with the idea of achieving four basic objectives. **The first one -- quick implementation -- for the reasons I've just stated.**

Number two, its my intention to obtain consideration when there are one-sided savings in the process. For most contracts that we have in place, there will be bilateral cost avoidance--that is, the savings will be passed directly to the government; and, in the end, to the taxpayer. This occurs on cost-reimbursable contracts and cases where we have priced options that can be re-negotiated. In the case of longer term fixed-price contracts, there is a possibility of what I would describe as unilateral cost avoidance--savings would be realized by the contractor but the contract's fixed-price structure has no mechanism to automatically pass along these savings to the government. In these unilateral cases, we would seek consideration either non-monetary or as adjustments to the contract prices.

Thirdly, I wish to minimize the cost of implementation. We could go through a very cumbersome procedure to implement this change. I have asked this be done on an expedited basis. We will not spend months having detailed cost proposals prepared, audited and negotiated unless the initial review by an administrative contracting officer indicates that the possibility exists for substantial unilateral savings after the contractor transition costs and the government administration costs are considered. We expect the number of these unilateral savings cases to be few.

Fourthly, we want to protect the interests of the principal stakeholders in this process -- the individual program managers who may be affected, and the individual program teams who are operating in a given facility.

We will be using an integrated product team approach to make a block change for modifying the specifications and the standards for all existing contracts on a facility-wide basis, rather than on a contract-by-contract basis. Here, really, the issue is you can't make a contract-by-contract change for a facility that has many contracts. You have to try to go through a set of common processes across the whole facility.

Our goal here is to consolidate or eliminate multiple management and/or multiple manufacturing processes when they're not needed. These multiple processes add unnecessary costs to the goods and the services that are purchased by the Department.

Let me give you my frame of reference here. About a year back, we commissioned a study conducted by Coopers & Lybrand. They looked to see what were the added costs of government-unique requirements -- imposed by the DoD on our major contractors -- costs above what would be imposed by normal commercial practice.

I would cite for you a couple of examples that they found. They looked, for example, at one military standard -- our MilQ 9858A. As many of you may know, it's a particularly intrusive quality standard used by the DoD. They found that the contribution of that standard caused a cost premium of doing business with the DoD. That premium was about 1.7 percent of the cost of items purchased by the Department in the facilities that they serviced. So that's a pretty significant number if you look at the overall cost, say, on a procurement budget of about \$40 billion per year.

They also looked at material management and accounting systems imposed by the government, and found this, too, to be a major contributor to cost, adding about six-tenths of a percent to the Department's cost. In one facility, for example, we found that the same parts were being stocked in 15 different locations because of multiple contracts, each with their own requirements. This, obviously, drives up the stockage levels of parts required, adds to obsolescence and also deterioration problems, and it creates inefficiencies that we would like to avoid.

Another example of the sort of problem that we're-trying- to-fix is the imposition of government-unique soldering specifications. In just one factory, a defense contractor was forced to use eight different soldering specifications--five for the government and three for commercial clients purchasing similar types of products. This meant the workers had to be trained on all eight soldering and inspection techniques. It also meant that the contractor had to maintain eight different types of production documentation. This cost him more. In turn, he passed those costs on to us. That's fair, but it is expensive. It's expensive for us and the taxpayer.

It's very difficult to streamline manufacturing processes across a facility in this kind of over-regulated environment. If we can consolidate to one or two major specifications, manufacturing personnel can become more efficient, the inspection requirements and the paperwork can be reduced, and we can, where possible, leverage off the commercial process.

What I've tried to illustrate here is how this may play out over time. There's going to be a period of transition. This might be a year -- maybe a year and a half long -- in which there will be costs of transitioning to a new process base. On the other hand, I've seen situations where there are easy savings to be reaped. We don't know enough today to predict whether in the short term there's going to be a net savings of a small cost. Whatever is going to happen in the short term, it is probably going to be small because we've already identified much of the low-hanging fruit. But there are some places where the savings will be less and there will be some cost during a transition period. I would expect this to play out in a year or a year and a half or so -- where we now start to cross the line and get out of the red and into the black where there's a net cost avoidance to the Department.

The focal point for this activity will be the administrative contracting officer assigned to the Defense Contract Management Command which is located in the contractor's facility. They will follow a process that will include the streamlined review and the adoption of contractors' proposals to proceed with this initiative across the whole facility.

This doesn't mean that the customers, the program managers, and the buying activities, won't be involved. Our local DCMC activities will use management councils, to include the involved program managers and other customers, as well as our Defense Contract Audit Agency, to review contractor proposals related to elimination or consolidation of these requirements. Only when there is agreement on the extent of the change will the administrative contracting officer execute the block changes to the contracts for that facility.

But we intend for this to be a streamlined approach. We will not spend months having detailed cost proposals prepared, audited and negotiated unless the initial review by an administrative contracting officer indicates that the possibility exists of substantial unilateral savings after the contractor transition costs and the government administration costs are considered. As I said earlier, we expect the number of these unilateral savings cases to be minimal, so we don't want to overburden the system to deal with them where it isn't required.

In summary, the longer it takes us to implement this, the longer we will bear the cost of inefficiency on these separate processes. So in my opinion, we want to move very quickly to get on with it and to see if we can't begin to reach closure here in this year or year and a half time frame that I've targeted.

Second, we want to take prudent measures to ensure significant unilateral cost savings do not occur.

Third, we want to minimize the cost of implementation.

And fourth, we want to protect the interests of the principal stakeholders.

I believe the Department has put tangible procurement reform into play with this "single process initiative." Together, DOD and industry can now step up and *do* something real for the American taxpayer.

We are a team and you are the key players. I offer my personal support and commitment to you as we work together to implement this important initiative.

Thank you all. I'd be happy to take questions