



**TRANSITION TOPIC:**

**Review of Acquisition Program Costs**

**TASK:** Review historical data on cost growth in Major Defense Acquisition Programs (MDAPs) and look for trends that might explain the source of this growth. Recommend best practices and management tools that could help alert the Department's senior leadership to potential program cost growth and that could help contain otherwise avoidable cost growth.

**TASK GROUP:**

Michael Bayer (Chair)      Pierre Chao

Kelly Van Niman (Executive Secretary)



## Defense Business Board

### **ISSUE:**

- Total acquisition budget for all Major Defense Acquisition Programs has more than doubled in the past seven years – from \$783B to \$1,702B
  - 44% of that growth (\$401B) caused by program cost growth
  - 36% of that growth (\$328B) caused by changes to program baselines
  - Rising program costs increases unit costs – Augustine’s Curve, limiting ability to recapitalize the force

### **IMPORTANCE:**

- Acquisition program cost overruns consume money that otherwise could be used to increase quality/quantities of systems warfighters need now and in the future
- The Secretary of Defense will need all available resources invested as effectively as possible in order to maintain operational readiness
- It is as much a cultural problem as a management issue, and in times of budget stress, could threaten the core of the institution.
- Thus only the Secretary’s personal involvement can reverse this trend, he can not delegate it to the Deputy or the AT&L

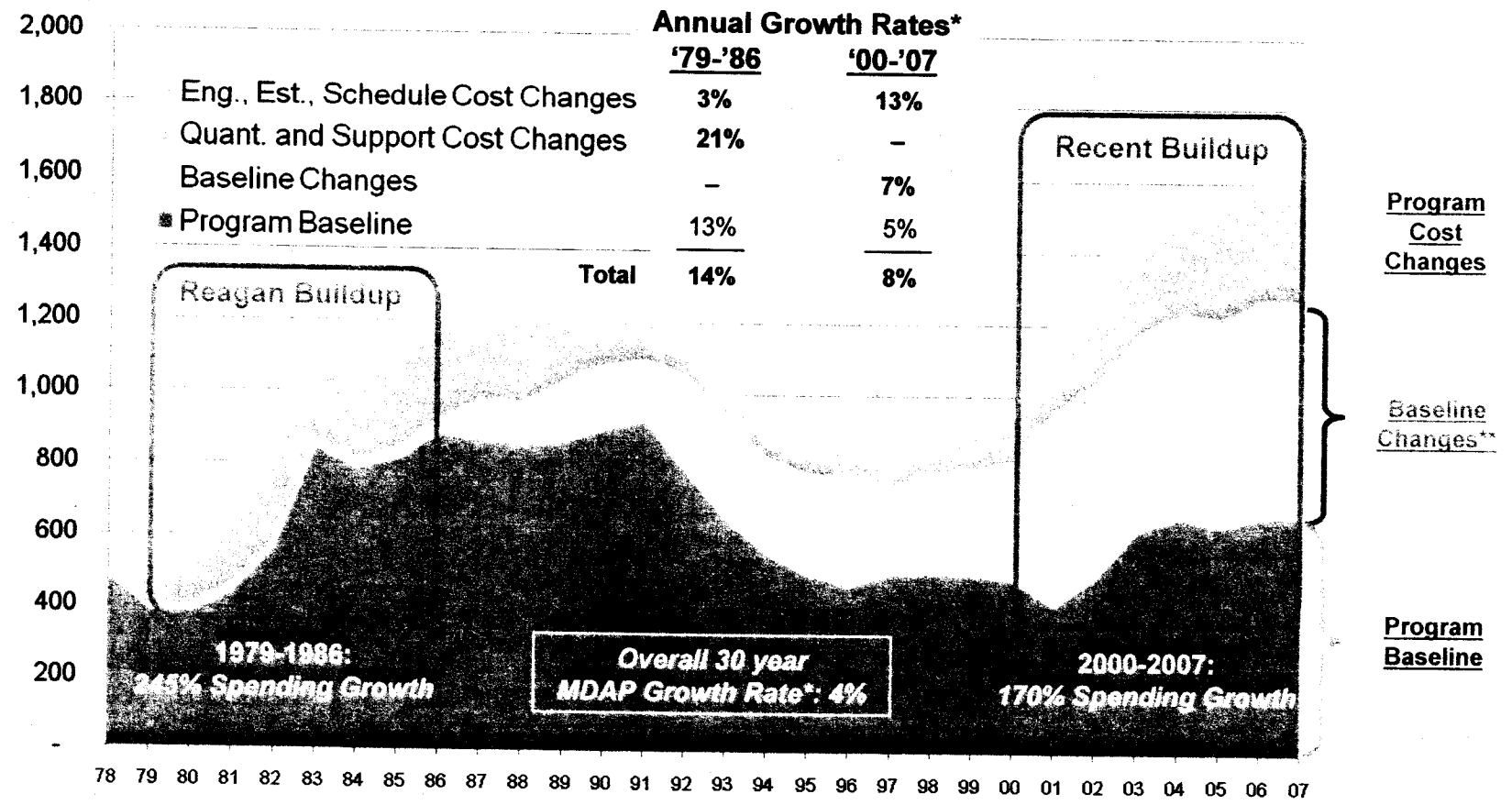


# Draft – Pre-decisional Pending Deliberations Major Defense Acquisition Program Portfolio: 1978 - 2007

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(2007 Constant Dollars in Billions)

2007 Year \$ (B)



**Recent buildup is characterized by fewer new programs, increases in existing baseline budgets, and increases in engineering and estimating costs**

\* Figures reflect Compound Annual Growth Rates (CAGRs)  
 \*\* Includes all changes between a program's initial 'baseline estimate' and its current 'baseline estimate' (as of 2Q 2007 SAR); BMDs engineering cost changes were reclassified as 'baseline changes' due to unique program budgeting process  
 Source: OUSD(C) Study, DoD Selected Acquisition Reports, 1978 - 2007 (2<sup>nd</sup> Quarter)

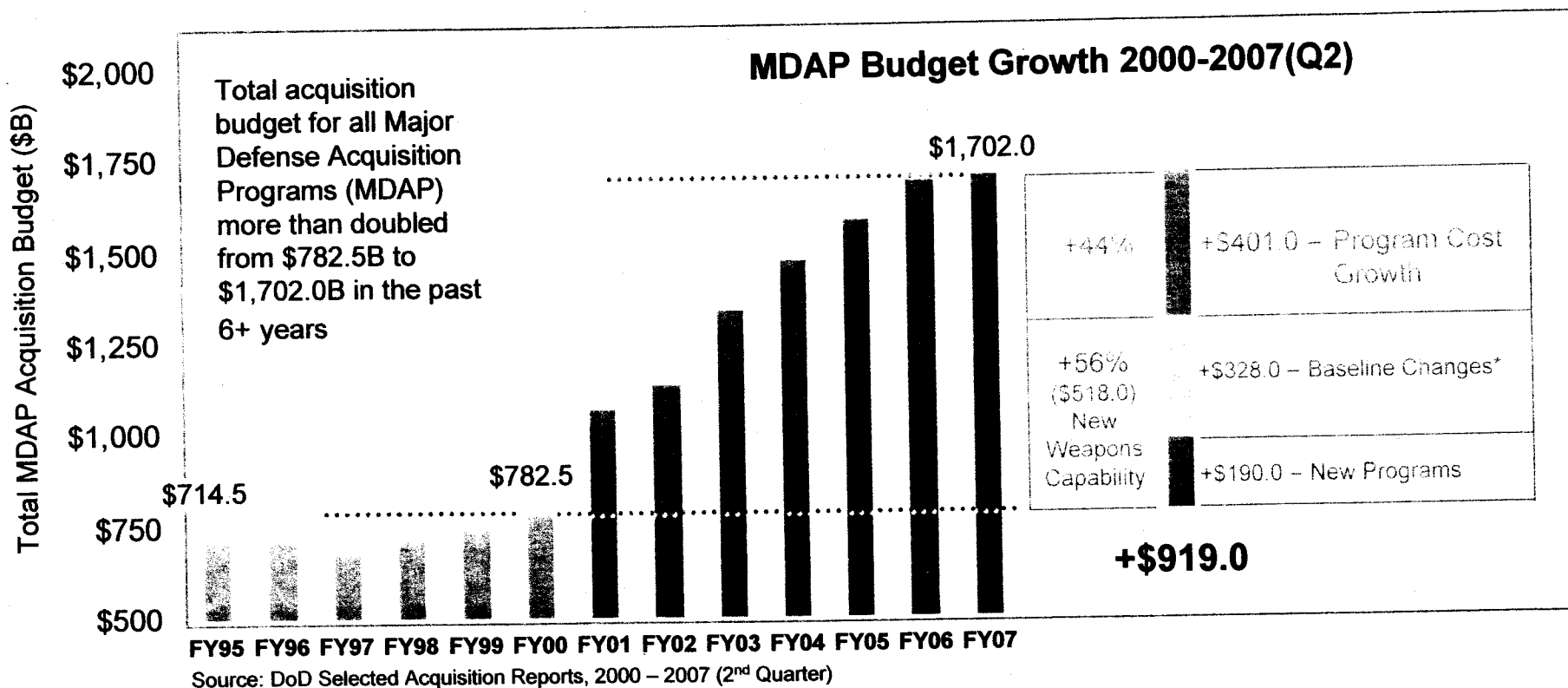


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Draft – Pre-decisional Pending Deliberations

## Major Defense Acquisition Program Portfolio Budget Growth: 2000 – 2007

(Dollars in Billions)



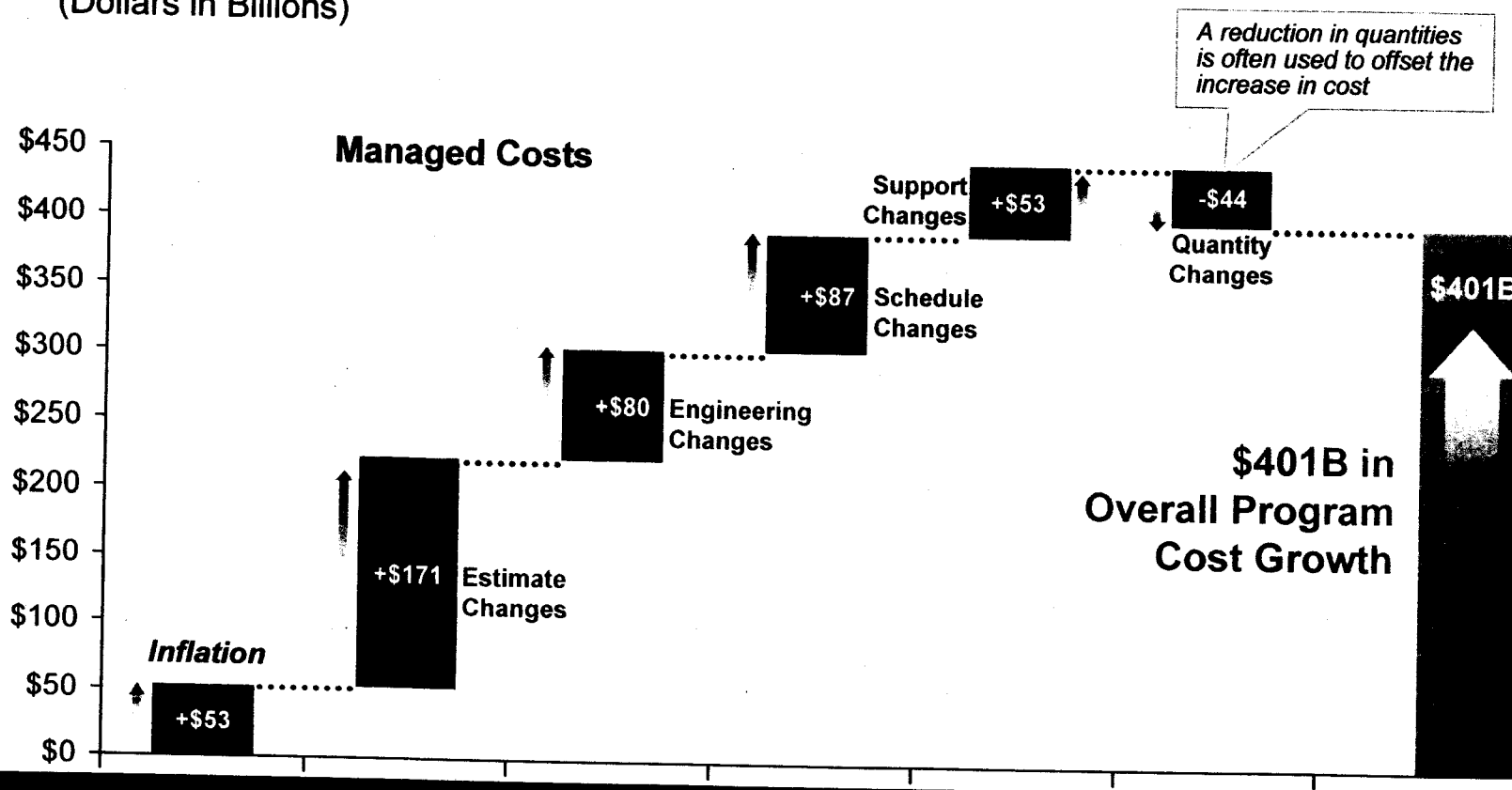
\* Includes all changes between a program's initial 'baseline estimate' and its current 'baseline estimate' (as of 2Q 2007 Service Acquisition Reports (SAR));  
 BMDS engineering cost changes were reclassified as 'baseline changes' due to unique program budgeting process

Numbers may not add due to rounding



## 2000 – 2007 Major Defense Acquisition Program Portfolio Cost Growth by Category

(Dollars in Billions)



**Estimating, engineering, schedule changes equal 84% of program cost increases**

Source: DoD Selected Acquisition Reports, 2000 – 2007 (2<sup>nd</sup> Quarter)

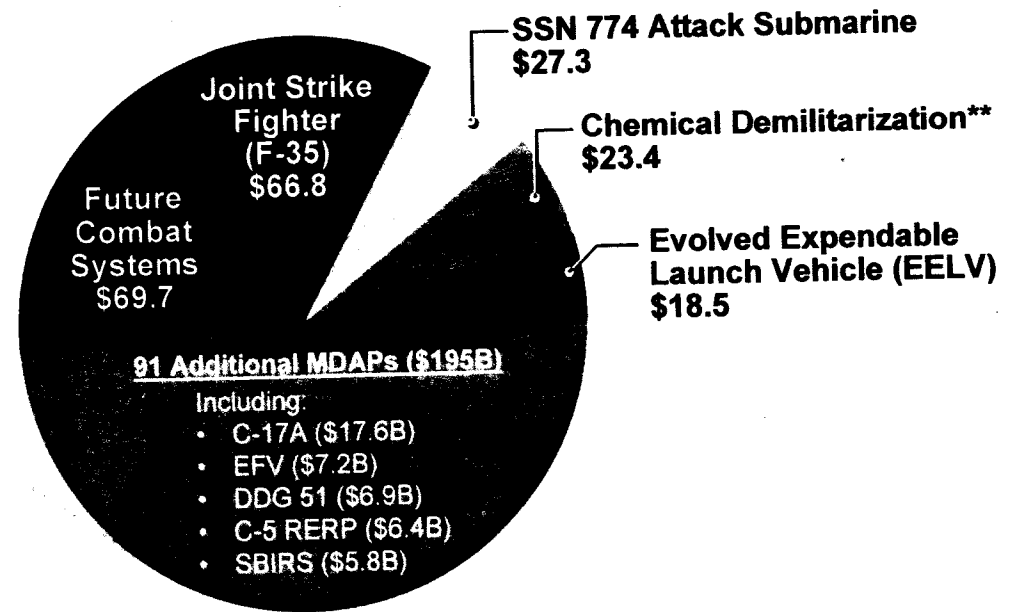
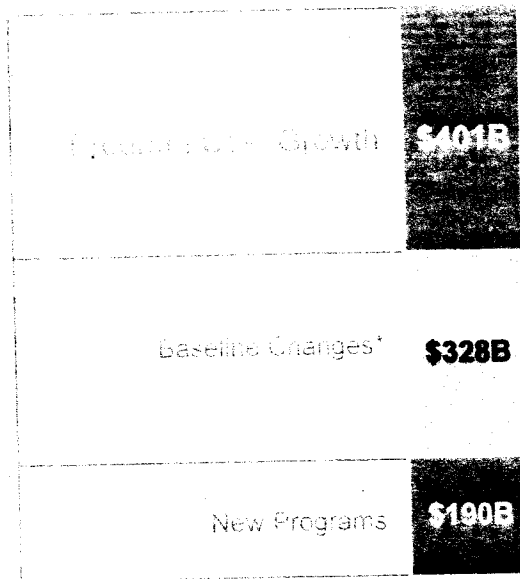






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## 2000 - 2007 Major Defense Acquisition Program Portfolio Cost Growth by Program (Dollars in Billions)



**Cost growth in Only Five Programs accounted for \$206B or 51% of the total**

\* Includes all changes between a program's initial 'baseline estimate' and its current 'baseline estimate' (as of 2Q 2007 SAR); BMDS engineering cost changes were reclassified as 'baseline changes' due to unique program budgeting process:  
 \*\* Combines 3 Chemical Demilitarization programs into 1 to match earlier SARs





## **DISCUSSION:**

- The total acquisition budget for all Major Defense Acquisition Programs (MDAP) has more than doubled in the past seven years (from \$783B to \$1,702B)
- Of the approximately \$919B in increased portfolio budget from 2000 – 2007, nearly half (\$401B) is for program cost growth over the baseline. The other half is for new programs or baseline changes (any change between a program's initial baseline estimate and its current or final baseline estimate)
- Estimating, engineering, and schedule changes are responsible for over 80% of the cost growth from 2000 to 2007
- The true nature of associated cost growth is lost once re-baselining decisions occur, managerial insight is lost
- Five programs accounted for over 50% of the program cost growth over the baseline – Future Combat System (Army), Joint Strike Fighter (Navy / AF), SSN 774 (Navy), Chemical Demilitarization (Army), and Evolved Expendable Launch Vehicle (EELV)



## **RECOMMENDATIONS**

1. The Secretary must work with AT&L and the Service Secretaries to drive a targeted reversal of this trend which addresses the previously listed key drivers of program baseline changes and program cost growth
  - a) Maintain metrics for each re-baselining decision to track/monitor drivers of growth
  - b) Focus on fundamental drivers not on “fixing” symptoms
  - c) Set and then propagate the cultural change necessary to reverse behavior
  - d) Establish non negotiable objectives and supporting metrics; hold the leadership accountable for achieving them
2. Hold industry executives accountable to the same objectives and supporting metrics as DoD
  - a) Initiate dialogue with industry independent of the requirements process to minimize future program baseline and estimate changes
3. Develop joint management tools to fix and manage the authority, responsibility, incentives and accountability across the relevant parts of DoD and industry



*Draft – Pre-decisional Pending Deliberations*

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**Member Comments**

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**Vote**

