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By Amy Butler

Two daunting problems face the Obama administration as it crafts a Pentagon acquisition strategy: a dearth of skilled program overseers and a consolidated industrial marketplace.

These issues - fostered by a faster-better-cheaper procurement philosophy in the 1990s - are making the challenge of keeping multibillion-dollar programs at cost and on schedule ever harder, says the top Air Force weapons buyer.

Amid a recession, the pressure is on at the Pentagon to spend its money more carefully. Sue Payton, who will leave her post once her replacement is confirmed, has been overseeing Air Force acquisition programs since 2006, in the course of high-profile problems with a new aerial refueling tanker purchase and the development of new combat search-and-rescue (CSAR) helicopters. She tells Aviation Week she is "rejuvenated" about the future in light of a recent focus on procurement by Defense Secretary Robert Gates (AW&ST Dec. 8, 2008, p. 24).

The USAF acquisition workforce is a shadow of its former self - 20 years ago, the staff numbered about 57,000; it now totals close to 15,000. "If you look at the workforce, we were up around 500,000 people in acquisition in all of the Defense Dept. It is down to about 200,000 now," Payton says. "What we are managing is scarcity." In the 1990s, the Pentagon embarked on a policy encouraging outsourcing of procurement oversight in hopes of saving money after the Cold War.

However, the lack of skilled oversight is costing the government, Payton says. For example, Lockheed Martin manages the \$11-billion C-5 Reliability Enhancement and Re-engining Program (RERP), which has sharply exceeded cost estimates. "I'd break the engines off of that C-5 RERP and have them be [government furnished equipment] to Lockheed Martin," Payton says. "I could save millions of taxpayer dollars, . . . but I have to have the workforce with the domain knowledge that could be able to oversee it and manage it. Those [government employees] all got fired."

Funding has been earmarked to hire more journeymen and interns as well as 50 procurement experts. And, as the Air Force goes to 330,000 uniformed positions from 316,000, Payton says she's asked for more than 300 people to support acquisition needs.

Often acquisition officials are caught between overly demanding requirements and anemic budgets. "I think that the environment is going to get better because from the top down you have to have an integrated approach to requirements, program acquisition and funding. And, it takes the secretary of Defense or a [deputy Defense secretary] to bring all of those groups together," Payton says. "It makes it easy on acquisition - to get you out from between the dog and the fire hydrant - because you have clear direction. You know exactly what you are going to be doing."

Gates said last month he intends to require the military services to cooperate more on development and procurement. This could force controversial choices regarding which services will get new technologies.

However, one step is underway toward better synchronizing efforts of requirements officials, who are often uniformed officers, and the acquisition corps tasked to buy their equipment. Now, acquisition officials must sign off on requirements documentation prior to review by the Joint Staff. This ensures needs are articulated in a way that allows acquirers to derive measurable requirements for a competition. In the past, poorly articulated metrics contributed to embarrassing bid protests, such as the \$35-billion Air Force KC-X tanker replacement debacle last year.

The joint process between the requirements and acquisition communities is being tested on a new Air Force program to replace the VC-25A, the Air Force One platform that transports the president.

The Air Force asked for information from bidders that can deliver three commercially derived replacements for the today's 747-200 Air Force One, one each in Fiscal 2017, 2019 and 2021.

A review from the acquisition corps reduced 127 pages of requirements for the presidential transport down to 43. "We rewrote some requirements, not to get rid of them or to marginalize them, but [so that] we could evaluate them in the source selection," Payton says. An audit of the tanker competition found that the more than 800 factors being evaluated made the effort far too complex.

Payton says a panel is formulating options for another forthcoming attempt to compete the KC-135 tanker replacement between Boeing, likely offering the 767, and an Airbus A330 design, which won in February 2008. The deal was terminated after auditors found numerous irregularities in the procurement process. Payton says a new request for proposals for a tanker could be released within 90 days. She also expects to select a CSAR-X winner in the spring. The Air Force revised the desired initial operational capability from the first quarter of Fiscal 2013 to the third quarter, and shifted the required initial operational capability six months to the second quarter of Fiscal 2015.

Payton admits that the service needs to prove it can execute a clean procurement. She says she is aggressively implementing lessons from both programs into others, applying a "belts and suspenders" philosophy of checking and doublechecking acquisition decisions.

In this environment, with a shrinking procurement corps and heightened scrutiny, the defense industry has consolidated at the behest of the Pentagon, sharply reducing competition in the marketplace. Payton says that during her conversations with the Obama transition team, officials expressed concern "about the lack of competition and the diminishing of our organic workforce in acquisition."

The current aerospace and defense industry makeup started taking shape in 1993, when then-Defense Secretary Les Aspin and then-Deputy Defense Secretary William Perry held the so-called Last Supper, a dinner with 15 defense industry chief executives. What resulted was a policy encouraging companies to merge in order to survive the post-Cold War budget downturn. Sixty-two contractors merged to form the top five industry giants: Boeing, Lockheed Martin, Northrop Grumman, Raytheon and General Dynamics.

Defense consolidation was recently reviewed by a Defense Science Board task force, which found insufficient data to conclude whether mergers have gone too far. "We found that there is anecdotal evidence on both sides, and we don't have the data to answer the question with precision," says David Berteau, a senior adviser at the Center for Strategic and International Studies and a member of the task force. "The data is unambiguous on this point: Competition improves cost, improves performance and it improves innovation. You can have competition more reliably if you are willing to go global in your sourcing."

And, after the Last Supper, the Pentagon and its top contractors were willing to look abroad.

"Has [consolidation] gone too far? My personal opinion is, yes, it has," Payton says. "Some of these companies were allowed to merge because their lawyers fought pretty hard to say, 'We are in a global economy, so don't worry about the fact that there are going to be one or maybe two builders in this environment.' [But] the first or second or third time you start doing that, you get this outcry about jobs and security." An example of this is the Buy American rhetoric of members of Congress whose districts stand to benefit from U.S. sourcing, such as the Marine One helicopter, which was awarded to an Italian design, and the A330-based KC-135 replacement.

Few options are available to reverse the trend. Payton wants to provide incentives for "companies that are just nipping at the heels" of industry's top five to foster competition. Also, she says, those larger companies could consider breaking off parts of their business. "Having some spin-off is not a bad thing," she says.

A defense arsenal system has been discussed, as well. Under this approach, the Pentagon would fund select companies for their competencies and provide stable financing for related research. "The CEOs wouldn't make \$28 million a year," Payton says. "They have a guaranteed mission and a guaranteed set of funding."

Dov Zakheim, a vice president at consulting firm Booz Allen Hamilton and Pentagon comptroller from 2001-04, says arsenals essentially exist in some areas because competition has evaporated. He is "not thrilled" with the idea, though he says it is unavoidable in some cases. "We may be tending that way at the prime level. It is very hard to see how you get around that. I don't see the U.S. buying a fighter from anyone else," Zakheim says. Lockheed Martin is the only U.S. contractor building fifth-generation fighters, while Boeing's future beyond the F-15, F/A-18E/F and E/A-18G is uncertain. The two companies are joining forces against Northrop Grumman in a forthcoming bomber duel.

A push by Congress to reclaim more government oversight of integration projects could also help to redraw the map of defense industrial might. "It could drive some metal benders out of the large-scale integration business," Zakheim says.

Competition among the second- and third-tier contractors could arise naturally. "We are getting competition from European firms that have essentially created American companies that, in the case of BAE, are bigger than the parent now," Zakheim adds. "There are trends pointing against worrying that much about consolidation."

Payton says she is not interested in taking a post in industry following her exit from the Air Force; she plans to pursue charity

work and focus on family.

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