Quarrelsome Committees in US Defense Acquisition: the KC-X Case

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Chip Franck and Bud Udis
Acquisition Research Symposium
PANEL 11, 15 MAY 2014
KC-X SOURCE SELECTION

• “... the (KC-X) contest has taught us several lessons— and so far, they are all a bit disappointing.” Pierre Sparaco (2010)

• “...one of the most screwed up programs in Pentagon history .... long history of cock-ups” Colin Clark, 2014
OUTLINE

• INTRODUCTION
• KEY EVENTS IN THE SOURCE SELECTION PROCESSES
• EXPLAINING BOEING’S 2011 WIN ... EMPHASIZING USEFUL MODELS
• SO WHAT?
  – OBSERVATIONS FROM THE KC-X CASE
  – ACQUISITION REFORM FOR A SECOND-BEST WORLD
• THE IMPORTANCE OF PARADIGMS
INTRO: Why the KC-X is interesting

• IMPORTANCE OF AIR REFUELING
• MATURITY OF SYSTEMS OFFERED
  – KC-767 (KC-46)
  – A330 MRTT (KC-45)
• 14 YEARS FROM INITIAL SOURCE SELECTION TO IOC ... ABOUT EQUAL TO F-22
• AN EXPENSIVE, EMBARRASSING NEAR-DISASTER
Key Events: The Leasing Initiative

• 100 AC FOR 20 YEARS FOR $20B
• KC-767 CHOSEN OVER A330 MRTT
• SIDETRACKED BY DRUYEN INVESTIGATION
• LEASING AGREEMENT ON HOLD DEC 2003
• OFFICIALLY CANCELLED JAN 2006
THE NEXT ATTEMPT

• SOURCE SELECTION RESTARTED IN 2006
• EXTENSIVE PUBLICITY AND LOBBYING CAMPAIGNS BY BOEING AND EADS
• EADS WINS (FEB 2008)
• BOEING PROTESTS (MAR)
• GAO RULES IN FAVOR OF BOEING (JUN)
• DOD ATTEMPTS A RECOMPETITION ... REPLACING AF AS SOURCE SELECTION AUTHORITY
• MAJOR AF FAILURE: “No one has any faith in the Air Force.”
## TANKER-TRANSPORT COMPARISONS

<table>
<thead>
<tr>
<th></th>
<th>Current Tankers</th>
<th>Current Transports</th>
<th>Proposed Tankers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>KC-135R</td>
<td>KC-10</td>
<td>C-5</td>
</tr>
<tr>
<td></td>
<td>C-17</td>
<td>Boeing</td>
<td>EADS</td>
</tr>
<tr>
<td>Wing span / Length (ft)*</td>
<td>131/136</td>
<td>165/181</td>
<td>223/247</td>
</tr>
<tr>
<td></td>
<td>170/174</td>
<td>156/159</td>
<td>198/192</td>
</tr>
<tr>
<td>Max. fuel (K#)</td>
<td>200</td>
<td>356</td>
<td>330</td>
</tr>
<tr>
<td></td>
<td>----</td>
<td>200+</td>
<td>245</td>
</tr>
<tr>
<td>Pallet Capacity</td>
<td>6</td>
<td>27</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>18</td>
<td>18</td>
<td>32</td>
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</table>
# 2008 AF EVALUATIONS (close)

<table>
<thead>
<tr>
<th>Mission Capability/Proposal Risk</th>
<th>KC-46 (Boeing)</th>
<th>KC-45 (NG-EADS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key System Requirements</td>
<td>Blue/Low</td>
<td>Blue/Low</td>
</tr>
<tr>
<td>Systems Integration/Software</td>
<td>Green/moderate</td>
<td>Green/moderate</td>
</tr>
<tr>
<td>Product Support</td>
<td>Blue/Low</td>
<td>Blue/Low</td>
</tr>
<tr>
<td>Program Management</td>
<td>Green/Low</td>
<td>Green/Low</td>
</tr>
<tr>
<td>Technology Maturity</td>
<td>Green</td>
<td>Green</td>
</tr>
<tr>
<td>Past Performance</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Confidence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost/Price (mostly likely LCC)</td>
<td>$108.044 Billion</td>
<td>$108.010 Billion</td>
</tr>
<tr>
<td>Cost Risk: Development/Production &amp; Deployment Phases</td>
<td><strong>Moderate</strong>/Low</td>
<td><strong>Low</strong>/Low</td>
</tr>
<tr>
<td>Overall Value Rating</td>
<td>1.79</td>
<td>1.90</td>
</tr>
</tbody>
</table>

BLUE (best), GREEN, YELLOW, RED (worst)
THIRD ATTEMPT

• DRAFT RFP (2009)
  – SIMPLE CRITERIA
  – STRONG EMPHASIS ON COST

KC-X SOURCE SELECTION CRITERIA

RESPONSIVE TO RFP?
Meets 372 “mandatory” requirements?

TOTAL PROPOSED PRICE (TPP)

WARFIGHTING EFFECTIVENESS
FUEL EXPENSE
CONSTRUCTION EXPENSES

TOTAL ADJUSTED PRICE (TAP)

“non-mandatory” requirements score (93 items in 5 groups)

AWARD TO LESSER TAP IF
DIFFERENCE IS ≥ 1%

TIEBREAKER

MEETS ALL 372 REQUIREMENTS OR FAILS

THIRD ATTEMPT (2)

• BIDDERS’ VISIBLE HESITATIONS (after RFP)
  – NG DROPS OUT (Mar 2010)
  – EADS GOES IT ALONE (Apr)
  – BOEING’S ANGST (perhaps strategic): “Your heart says you have to be part of it, but (our) job is to make sure that the heart doesn’t make a decision the head can’t live with”

• KC-45 AND KC-46 PROPOSALS IN JULY OF 2010
THIRD ATTEMPT (3)

• EADS AS FAVORITE: refueling effectiveness
  – Assessments accidently shared with both
  – Boeing reported to be “downright alarmed.”
  – Even the Seattle Times reported Boeing expected to lose.

• BOEING’S ROCK-BOTTOM FINAL OFFER: “I think the (shareholders) would be glad if we won at the bid level we put in and would be happy if we lost at a lower level.”

• BOEING WINS, FEBRUARY 2011
## THE 2011 EVALUATION

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>BOEING (KC-46) $B</th>
<th>EADS (KC-45) $B</th>
</tr>
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<tbody>
<tr>
<td>Total Proposed Price (TPP)</td>
<td>21.4</td>
<td>23.4</td>
</tr>
<tr>
<td>Fuel Savings</td>
<td>(0.5)</td>
<td>0</td>
</tr>
<tr>
<td>Basing Infrastructure</td>
<td>(0.3)</td>
<td>0</td>
</tr>
<tr>
<td>Warfighting Effectiveness</td>
<td>0</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Total Evaluated Price (TEP)</td>
<td>20.6</td>
<td>22.6</td>
</tr>
</tbody>
</table>
EXPLAINING BOEING’S WIN

• MAJOR CAUSES
  – BOEING’S VERY “AGGRESSIVE” BID
  – CHANGING CRITERIA

• EXPLAINING BOEING’S BID (MODEL I)
  – PROFITABLE? PROBABLY, BUT ONLY LATER
  – DOABLE? YES
  – CONSISTENT WITH CORPORATE “VISION:” DARN RIGHT (“an existential moment for Boeing”)
  – OTHER ISSUES
    • STAYING IN THE TANKER MARKET
    • CONTINUING B767 PRODUCTION
    • KEEPING AIRBUS PRODUCTION OUT OF US
EXPLAINING THE NEW CRITERIA:

• THE OFFICIAL EXPLANATION: AF simply followed the rules laid out in the Request for Proposal

• AN ALTERNATE EXPLANATION (MODEL II)
  – INCREMENTAL CHANGE, IN RESPONSE TO ORGANIZATIONAL FAILURE
  – SIMPLIFIED CRITERIA (PROTEST-RESISTANT)
  – ... WHICH EMPHASIZE PRICE (but not exclusively)
NEW CRITERIA: CHANGING CIRCUMSTANCES

• CONTINUED C-17 PRODUCTION REDUCES CONCERN ABOUT AIRLIFT CAPACITY
• MCRS-16: IN OUR OPINION, ONLY IDENTIFIED WORRIES ARE RELATIVELY MINOR REFUELING CAPACITY SHORTFALLS (2 OF 3 SCENARIOS)
• ... WHICH FOCUSES ATTENTION ON AGING KC-135 FLEET AND ASSOCIATED ADVANTAGES OF RECAPITALIZING AND HEDGING
NEW CRITERIA:
GOVERNMENTAL POLITICS (Model III)

• THIS OUTCOME CAME FROM VARIOUS FACTIONS CONTENDING WITHIN THE US. GOVERNMENT AND DEFENSE INDUSTRY
  – INDUSTRIAL PLAYERS: BOEING AND EADS
  – GOVERNMENTAL PLAYERS: AF/DOD; CONGRESSIONAL DELEGATIONS FROM BOEING AND EADS

• PLAYERS ACTED TO CHANGE CRITERIA
  – NG-EADS OBJECTIONS TO DRAFT RFP
  – REP DICKS FOR 40-YEAR ASSESSMENT (VS. 25)
GOVERNMENTAL POLITICS (cont)

• CHOOSING BOEING WAS THE PATH OF LEAST POLITICAL RESISTANCE

• BOEING DELEGATION HAD MORE POWER THAN THE EADS DELEGATION

“Many observers believed [Rep] Dicks [D, WA] successfully drove the military to reshape the contest to Boeing’s advantage.” (Colin Clark, 2012)
SO WHAT?: Three Observations

• The government resembles a “quarrelsome committee” more than a monopsonist.
  – Models of the defense acquisition process may need major restructuring.

• Power relationships have shifted considerably since the end of the Cold War.
  – Defense industrial firms have more market power
  – ... and worked actively to influence the quarrelsome committee deciding on the KC-X

• Protests have significantly changed the process ... apparent initiatives for protest-proofing
Acquisition Reform for a Second-Best World

• WE’VE HAD LITTLE SUCCESS IN DECADES OF REFORM ATTEMPTS.

• A NECESSARY CONDITION FOR SUCCESS MEANS INCLUDING THE LEGISLATURE (IN OUR VIEW OF THE SYSTEM).

• REFORM ALSO INVOLVES INDUSTRIAL POLICY ...
  ... A CONSEQUENCE OF THE “LAST SUPPER”
WHAT DIFFERENCE WOULD IT MAKE

• FEWER, WINNER-TAKE-ALL COMPETITIONS – EXECUTED OVER VERY LONG PERIODS

• DUAL (OR SPLIT) BUYS ... LIKE REP. MURTHA WANTED FOR KC-X
  – POLITICALLY PRAGMATIC
  – WOULD HAVE GUARANTEED MORE THAN ONE QUALIFIED SUPPLIER FOR THE KC-Y (& Z)
  – FEWER ONE-RESPONSE RFPs
  – LESS ONLY-GAME-IN-TOWN SYNDROME
THE ABIDING IMPORTANCE OF PARADIGMS

• STRUCTURING THE ENVIRONMENT TO CONSIDER (What do the industrial players and the Congress really do?)

• ASKING THE RIGHT QUESTIONS (Does Congress exist to parachute in to provide enabling legislation, or is it really part of the problem?)

• ...