Smart Procurement

Optimizing the Total System

Professor Derek K Hitchins
UK Defence Procurement Scene
Defence Procurement Paradigms

- Essentially, there are only two ways buy gentlemen’s suits and defence equipment:—
  - Go into the market place and buy what you want,
    OR…
  - Contract a tailor/manufacturer to create a bespoke solution to your specific needs

- Less developed nations have had little choice but to buy in the market place—they lack the industrial muscle

- Traditionally, developed nations have opted largely for bespoke solutions, developed by indigenous industries for national purposes

- As defence technology becomes more complex, sophisticated and expensive, even the developed nations are questioning this perceived wisdom
Bespoke Limitations

• Classic Cold War Procurement strategy was based on Intelligence.

• Given sufficient information about the Enemy it was possible, in principle, to:—
  – identify potential shortcomings in own capability
  – specify a solution which would plug the gap and restore own supremacy

• This Operational Requirement was translated into an equipment requirement for industry to build

• It did not work well.
Bespoke Limitations in the UK

- Defence intelligence was invariably incomplete.
  - As the collapse of the Soviet Union showed, it was considerably wide of the mark, too

- The process of developing operational requirements and imposing them on industry was/is severely challenging
  - Expertise was provided by operators who:—
    - were themselves operating 15—20 year-old equipment designs;
    - increasingly, had no recent fighting experience,
    - had little contemporary technology understanding
    - were poorly-placed to conceive new tactics, using new technology in future conflict
  - Complex operational and equipment characteristics are not amenable to straightforward, consistent, concise complete text description by industrially-naïve authors
  - Requirements grew in length and deepened in specificity,
    - taking longer and longer to prepare in ever more detail…
    - …during which time the need evolved…
    - …resulting in “carefully-specified obsolescence” I.e. out of date before delivery
  - Process became antagonistic as procurer attempted to control contractor ever more tightly in a vain effort to get what he could not adequately specify
Carefully Specified Obsolescence

A desire for Detailed Specification

during which

The Environment

and

The Threat

change in proportion to

An Obsolescent System

resulting in

The Delay
The Control Paradigm

- Defence Procurement since WWII characterized by applications of successive layers of government control over the defence industry.
- Reasonable to suppose that tighter control of requirement specifications, budgets, contracts, schedules, milestones, payments against progress, etc., would result in predictable project outcomes
- Counter-intuitive results—tighter control leads invariably to escalating cost and time scales
  - Suggests complex procurement system is “non-linear dynamic”
- Nonetheless, the emerging pattern of Smart Procurement is “more of the same”
Cost of the Current Control Paradigm

- Successive tightening of Procurement Controls has coincided with successive increases in overspend

- Control has not worked. Control does not work

Yet Smart Procurement is emerging as controlled, bespoke procurement to order
Bespoke Limitations

• Bespoke solutions were invariably nation- and theatre-specific and unsuitable for out-of-area operations and export sales to other nations
• They were/are, naturally, more expensive, too:—
  – Cutting edge materials, sensors and weapons technology
  – Specific, therefore relatively small quantities in manufacture
  – Hedged round with detailed specifications, procedures
  – Elaborate control hierarchy through successive committees
  – Security precautions
• To control expense, government hit upon competition
• Competition, it was argued, would oblige contractors to reduce their costs. More competition would mean more savings. Therefore, there should be open competition at every stage
Open Competition

• To further the ideas of competition projects were phased, using the so-called Downey approach
  – Pre-feasibility, feasibility, project definition (Parts 1 & 2), pre-production and production
  – Each phase was subject to competition and was conducted by a different contractor

• Principal results were:
  – Excessive delays caused by the inter-phase competition
  – Increased costs as industry teams went on hold
  – Increased costs from allocating phases to lowest bidder, who bid low through inexperience and subsequently failed to deliver
  – Inability to build up knowledge and understanding through the course of a project—hence limited end-product effectiveness
  – Nugatory antagonism between industry competitors and MOD procurement and contract functions
Insistence on Competition attracts More Companies including Inexperienced Companies increasing Project failures and raising Prices raising Overheads, which initially compete to lower and raising Overheads, so reducing Bid Success Rate per Company, which raises Price. This cycle demonstrates counter-intuitive competition, where increasing competition attracts more companies, including inexperienced ones, leading to increased project failures and rising prices, which initially compete to lower Overheads, reducing Bid Success Rate per Company, and raising Prices again.
Importance of Defence Exports

- UK Defence has vital political rôle
- Enables co-operative defence within NATO
- Maintains UK as an international player
  - Assures UK seat in the Security Council
- Major UK wealth creator.
Changing Industrial Patterns
Issues

• Global changes threaten the status quo
• Societies are fragmenting along old fracture lines
• Commercial industries are being revolutionized by Japanese-inspired Lean, Volume Supply
  – High quality, reduced cost, international production systems
  – E.g. automobile and electronics industry
  – Industry now major supplier and consumer of high performance, high reliability electronic/processor goods
• Demise of the Cold War has given way to high levels of uncertainty in Defence.
  – International policing appears to be a significant future rôle, usually as part of some international force with former enemies as new allies
  – Nuclear proliferation continues with India and Pakistan squaring up, and China in the background
Market-Pulled Industrial Systems Engineering

Resources → Second-tier Supplier → First Tier Supplier
Resources → Second-tier Supplier → First Tier Supplier
Resources → Second-tier Supplier → First Tier Supplier
Resources → Second-tier Supplier → First Tier Supplier
Resources → Second-tier Supplier → First Tier Supplier

Company

Market

Demand

Supply Chain

Re-cycling

Businesses

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Inside Business Systems Engineering

First Tier Supplier
- Conceive
- Design
- Develop
- Prove
- Assemble
- Produce

Second Tier Supplier
- Parts supply

Project Systems Engineering
- Conceive
- Design
- Develop
- Prove
- Assemble
- Produce

Lead Business
- Conceive
- Design
- Develop
- Prove

Joint IPT

Project Systems Engineering
- Conceive
- Design
- Develop
- Prove

Sub-systems Engineering
- Hydraulics, pneumatics, radar, communications, electrics, engines, weapons, avionics, instruments, information, cockpit… systems engineering

Sales
- Parts supply
- Assemble
- Produce

Market
- Parts supply
- Assemble
- Produce

Manufacturing Systems Engineering
- Parts supply

Supply Chain Systems Engineering

Market Systems Engineering
Integrated Product Teams

• Lean industries *empower* workers
  – I.e. delegate authority to make product design/development/engineering decisions

• Decisions made on-the-spot, therefore *fast (= efficient & effective)*

• Most decisions are multi-dimensional
  – Technological, financial, commercial, sales, etc.
  – Ethic is to improve product on behalf of customer

• Small Integrated Product teams formed to make such composite decisions:—
  – Team composition relative to decision
  – May include supplier(s) representative(s)
  – Team size typically 5. Small teams…
    • speed decisions
    • keep costs in check.
### Agile Lean Volume Supply System

- **Material flows clockwise**
- **Money flows anticlockwise**

1. Flow rate around the system
2. Proportion of circulation time/resources spent in Market

**Metrics:**

**Dissatisfaction**

**Market**

- Repairs
- Failures

**Company**

- Parts on demand
- Company pull, money

**Suppliers**

- Supplier pull, money

**Resources**

- Resources on demand

**Extraction**

**Recycling**

**Scraping**

**Market obsolescence**

- Scrapping
- Extraction
- Recycling

- Innovation
- Response to demand
- Market pull, money
- Repairs
- Failures

**Circle evolves to be more efficient over time using Kaizen**
Supply Chain Competition

- Competeive Evolution
- Progressive quality improvement
- Progressive cost reduction

- Constructive competition is *between* Supply Circles,
- *Not* between Companies in a Supply Circle—that’s *self-destructive*!
• US Defence Industry obliged by US Administration to introduce commercial lean practices to reduce costs
• US Defense Acquisition Reform Objectives:
  – *Emulate Phenomenal success of Commercial Volume Supply*
  – Reduce US defence tax burden—sound politics and economics
• US Defense Acquisition Reform Tactics:
  – Create super-aerospace companies, able to afford their own defence R&D
  – Dispense with Mil Standards, Specifications, introduce Single Process Initiative…
Smart Procurement, Foresight and “Systems Engineering”

- US Defense Acquisition Reform threatens UK/European defence industry
  - Unable to amalgamate effectively—piecemeal nationalistic politics
  - UK/European Defence Industry threatened/swallowed(?) by US amalgamations
- UK response is Smart Procurement, heralded in 1996 by George Robertson, then Defence Minister.
  - It was to be faster, cheaper, better, using commercial practices and off-the-shelf products to reduce procurement times
- Government’s Foresight Initiative reported that Systems Engineering was a necessary cornerstone of future Aerospace industrial success.
- Systems Engineering became instantly, and erroneously, identified with Smart Procurement
- Those jumping on the accelerating Smart Procurement/“Systems Engineering” bandwagon:
  - Overlooked the substantial body of knowledge on systems, systems thinking and systems engineering—past practices, previous pitfalls, current theory and research
  - Introduced their own, untested ideas—largely reductionist, rather than systems, in nature, OR declared their current practices to be closet systems engineering OR proclaimed that software engineering was really systems engineering
  - Concentrated on Requirements, the traditional means of controlling the Defence Industry
What Should Smart Procurement Look Like?

• George Robertson rightly stated only the goals, not the route to Smart Procurement

• To procure commercial-off-the-shelf (COTS) products, however, requires that procurement cycles be less than 2/4 years—else COTS products will be superseded before delivery

• On this basis Smart Procurement should aim, then, to reduce platform procurement times from c.21 years to 2/4 years

• Is such a reduction feasible?

• Evidence from BAe’s Experimental Aircraft Project (EAP) suggests it is—under specific circumstances
BAe’s Experimental Aircraft Project (EAP)

- From a standing start, EAP took 4 years to conceive, design, build and fly.

- Commercial organization
  - BAe worked with established, preferred systems suppliers—no competition *per se*—”costs lay where they Fell”
  - Operated as the “front end” of a commercial lean supply chain
  - Limited integration, sufficient for purpose

- Result? A splendid achievement in a short time for relatively little cost

- Could such fast procurement be the norm?
  - Only if there were fundamental changes in procurement methods
Changes to Reduce Procurement Cycle

• Tempting to simply streamline the current procurement—and that has been the route to Smart Procurement so far:—
  – Reduce number of phases
  – Minimize inter-phase delays

• Unfortunately, this approach does not offer enough scope to reduce cycle, reportedly, by much more than one third, from 21 years to 14 years
  • Half-life of commercial, computer-based technologies c. 18 months, so…
  • COTS effectively precluded by simple streamlining process

• Significantly, mention of COTS has become progressively less frequent in the Smart Procurement literature

• Even were COTS unimportant, a 14 year procurement cycle is still far too long in a dynamically changing technological, social and political world
Radical Change

- Radical changes appear to be necessary if Smart Procurement’s original—and laudable—aims are to be even approached
- Two notions come to mind:—
  A. Eliminate phases altogether—simply provide industry with an objective and leave them to produce the result
    - Requires government trust and “hands-off” during design, development and proving
  B. Switch to the alternate way to buy a gentleman’s suit—off the peg
    - Completely different approach, but familiar in most other fields of endeavour
- These potential alternatives will be examined below
A. Eliminate Phases Altogether

- Why not eliminate phases altogether?
  - After all, phasing is anti-systems, i.e. reductionist—it breaks the creation process into independent “chunks”
  - If removing some phases saves time, removing all phases should save more time—*reductio ad absurdum*

- Eliminating phases in bespoke procurement equates to customers providing a requirement at the start and trusting the contractor to produce the goods to order some years later

- Procurers are mandated to safeguard public money, however.
  - Flow of money seen as controllable if released in tranches against tangible progress—although tranches cost more in the long run (sic)
  - Notion of trusting contractors is incompatible with mandate

- Without taking other measures, eliminating phases is unlikely to reduce the procurement cycle by more than a further 3/4 years. It would still be too long at 10-11 years
B. Buy “off the peg”

- We do not place a requirement specification on a car manufacturer, then wait several years to receive the product.
- Instead we form an idea of what we need, go into the market place and see what’s on offer from a variety of manufacturers.
- Often we see products which offer benefits we had not thought of—shopping around becomes a learning experience.
- When we choose, we expect the new car to be delivered in weeks, including any optional extras we may have chosen.
- We can do the same thing with most defence systems, even with complete tanks, planes and ships, provided:—
  - There is a robust market, with competitive products to choose between, some of which meet our perceived and evolving needs.
- What’s the catch?
B. Off the Peg Pitfalls

• A robust market implies international sources. If we do not buy from our indigenous defence industry, how are they to survive?
  – Once freed to compete in an open defence market, our defence industry will become much leaner and meaner through competition
  – Once freed, they can form Agile, lean volume supply associations

• How could we integrate and maintain different systems purchased from an open international market?
  – Our systems would have to be designed to accommodate differently sourced products, just as computers accommodate Plug and Play, variously sourced motherboards, etc.
  – The key is “loose-coupling”

• What if some of these products were COTS?
  – They would be subject to continual, commercial upgrade to both soft-and hard-ware
  – Places special responsibility on the operational user organization to act as a “consumer” of “consumable products”.
Revealing the Flaws

• Last bullet reveals major issue. Defence procurement should be balanced with Defence consumption
  – No successful tailor would make suits either faster or slower than the rate at which customers discarded them.

• Smart Procurement, despite commandeering the term “Systems Engineering”, has failed to identify the “whole system”—a basic tenet of any systems approach
  – The operational user organisation is part of the whole system

• If future Smart Procurement is to take advantage of Agile Lean Volume Supply potential to supply faster, better and cheaper, then
  – Operational Users of Defence Equipment will be seen as consumers of defence products
  – Operational User consumption rates and patterns will be matched to Lean Volume Supply patterns of provision
UK Defence Acquisition
and
Total Systems Acquisition
Total Systems Acquisition—Overview

- Wealth Creation in Europe
- reduced public spending
- reduced taxation
- Socio-economic stability – within Europe – between customer countries
- Counter to US industrial dominance
- International Political Stability

Circles “mesh” like gears

Spin rates driven by defence spending

Synchronized Spin Rates

Lead Company

European Leads
Global Enterprises
Customer countries

First Tier Supplier

Second Tier Supplier

Third Tier Supplier

Lead Company

Market

Recycler

Market

Recycler

Resources

Extraction

First Tier Supplier

Second Tier Supplier

Third Tier Supplier

Lean, Volume Supply Circle

Resources

Extraction

Synchronized Spin Rates

Military Customers

Operational Use

Upgrade Variant Replacement

Buy "off the shelf"
Total Systems Acquisition

• **Key concept:**
  – Procurement is *not* the system-of-interest (SOI). It is only part of that system
  – The SOI is the *complete supply circle*, including supply, market, customer, (military) user and recycling into new supply

• **Optimizing this complete system can:**
  – Build UK National wealth/reduce national tax burden
  – Enhance our position in both world politics and economics
  – Supply our Armed Forces with the latest technology
  – Enable us to afford more of that latest technology

• **Barriers to Optimization:**
  – Piecemeal “improvements”. Tried and failed since Downey.
  – Political fragmentation, esp. within Europe
  – Failure to understand/apply the principles of systems engineering *at high enough systems level*
  – Failure to match Armed Forces Procurement to Supply System!

**UK right on top of Cross Roads!**
Armed Services
—Implications
Supply Chain—In-Service Impacts

Global Defence Customers → Global Commercial Customers

Second Tier → First Tier → Lead Supplier

Replacement → Obsolescence → Continual Flow

Upgrades, variants → Continual Flow → Operations

OR

• Only part of Market

Test & Evaluation

• New importance

• Continual capability improvement
Relative Capability and Update Rate—1

Relative Weapon System Capability

"Ageing" Technology

Mid-life Update

Continual Update

Current Procurement Paradigm
Relative Capability and Update Rate — 2

Higher Update Rate = Higher Mean Capability

Slower Update Rate = Lower Mean Capability

In-Service Systems Engineering Challenge
Balance Update Turbulence against Higher Capability
Challenge to Armed Forces

• Nature of volume supply systems requires that they supply continuously:
  – maintains flow of products and revenue,
  – maintains currency and expertise of lean development teams
  – variants, upgrades, operating systems, hardware, interface standards…
  – new technology

• Armed forces accustomed to:—
  – long periods operating increasingly-dated equipments
  – major upheaval as “unprecedented” system arrives

• Armed forces challenges & changes:—
  – *take advantage* of continual flood of change and new technology
  – *revolutionize* acquisition, operation, support, training

No Forces revolution?
No benefit from supply revolution
Opportunities

• Design systems to be continuously upgradeable:—
  – Classic systems engineering
    – *Loosely-coupled sub-systems*
    – “*Plug-and-Play*” add-on/substitution/upgrade/variant

• Forces *could* transition from *Systems Supply to Facilities Supply*:—
  – Industry “leases” systems to Force
  – Industry responsible for maintenance, continual upgrade and recycling
    • Except “forward”
  – V. similar to *de facto* Desert Storm operations

**Government policy?**
—Public-Private Partnerships
Transitioning to Total Systems Acquisition
A new Rôle for Government?

• Encourage UK defence industry to create world dominant commercial supply chains
  – Defence specific? Restricts volume supply market
  – Dual technology? Regulation presents obstacle
• Government rôle—create, perhaps even impose, climate for commercial supply chain building
  – Japanese evidence; rôle of government’s MITI (c.f. DTI?) crucial in creating industrial supply circles
• US model of amalgamations not the only route…
• Alternative is for Lead Company to “seduce” First Tier, Second Tier, etc., suppliers
  – Invest in suppliers’ infrastructure,
  – Introduce supply chain information systems
  – Lead Company becomes the market for its suppliers

Necessitates Government De-Regulation
Managing TSA

**INPUT**
- Foreign policy
- National security
- Sociopolitical analysis
  - Force representations
    - current
    - potential
- Effectiveness criteria
- Market intelligence
- Component shortlist
- Contribution criteria
- Funding

**PROCESS**
- Set Goal Defense Capabilities
- Establish Doctrine, Strategies, and CONOPS
- Synthesize Alternative Force Structures
- Select “Optimal” Force Structure
- Identify Suitable Components in Market
- Test & Evaluate Contribution to Capability
- Select Optimal Components
- Buy “off shelf”
- Integrate into Structure

**OUTPUT**
- Defense capability goal
- Formal policies
- Structure options
- Target structure
- Components options
- Component contribution
- Target components
- Acquisitions
- Achieved capability

**Effectiveness criteria**

**Components options**

**Market intelligence**

**Sociopolitical analysis**

**Structure options**

**Target structure**

**Target components**

**Achieved capability**
• US Super-companies—US-only companies:
  – Contain US sensitive material & data
• UK/Europe Supply Circles, European + customer countries
  – More open—national security an issue?
  – UK/Europe: lead company’s country sets rules?
Keeping National Technology “Edge” Secure

UK/European Supply Chain

Second Tier
- Databases
- Processors

First Tier
- Sensors
- Weapons

Lead Company

Complete Platform

Contained Systems: —
- Sensors
- Weapons
- Power
- Processors
- Communications
- Hydraulics
- Pneumatics
- Databases, etc.

Market

Advanced Platform
- Classified Development within National Lead Company

National Development

UK Skunk Works
Total Systems Acquisition & UK Economy

How much could we save in taxation by moving to Total Systems Acquisition?

- How much do we spend as a nation on Defence R&D?
- What’s the annual cost of the requirements and procurement elements of MOD and MOD(PE)?
- How many military personnel, trained for military operations, spend their time on procurement, requirements, etc., for which they are not trained?
  - Double waste of money!
- And how much would it cost to go to war inadequately equipped?

That’s how much Public Money we could save…and that’s £billions p.a.!!
Even Smarter…

- Project Initiation Approval
- Major EAC Approval

Concept Studies
- Feasibility Studies
- Project Definition

Full Development & Production
- Acceptance Trials Against Contract Requirement
- In Service
- Disposal

PM appointed by start of Feasibility
PM hands project to Logistics Manager

Team Leader appointed and IPT formed at completion of draft statement of mission needs
Team Leader moves team to appropriate Logistics Command

Manufacture
- Manufacture
- Manufacture
- (Supply chain R&D)

Competitive Test and Evaluation

Even Smarter…

Downey

Smart Procurement

Continual In-Service Upgrade
Total Acquisition Systems—Summary

- Government De-regulation
- UK-led Global Lean Supply
- Inter-Supply-Chain Competition
- Commercially-funded R&D
- Design for Continual Upgrade
- Matched rates
- Commercial supply, Service consumption
- Continual in-Service upgrade

Mission

Enhanced Force Capability
Enhanced National Security

National Wealth Creation

Critical Node

Critical Node

Total Acquisition Systems—Summary

Start
## Smart Procurement Vs. TSA

<table>
<thead>
<tr>
<th><strong>Smart Procurement</strong></th>
<th><strong>Factor</strong></th>
<th><strong>Total Systems Acquisition</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regulated Defence Industry Paradigm</td>
<td>Free defence market</td>
</tr>
<tr>
<td>Customer pays</td>
<td>Development Cost</td>
<td>Industry pays</td>
</tr>
<tr>
<td>Customer</td>
<td>Development Risk</td>
<td>Industry</td>
</tr>
<tr>
<td>Trust paper promise</td>
<td>Customer mode</td>
<td>Try before buy</td>
</tr>
<tr>
<td>Customer</td>
<td>Financial Exposure</td>
<td>Industry</td>
</tr>
<tr>
<td>Prevents supply circles</td>
<td>Competition</td>
<td>Between supply circles</td>
</tr>
<tr>
<td>Phased, controlled, slow</td>
<td>Development Cycle</td>
<td>Commercial, fast, expert</td>
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<tr>
<td>Excluded due to long cycle?</td>
<td>COTS Products</td>
<td>Included</td>
</tr>
<tr>
<td>Customer controlled</td>
<td>Innovation</td>
<td>Industry inspired</td>
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<tr>
<td>High (low throughput)</td>
<td>Production Cost</td>
<td>Low, getting lower <em>(Kaizen)</em></td>
</tr>
<tr>
<td>Outmoded at delivery</td>
<td>Design currency</td>
<td>Contemporary</td>
</tr>
<tr>
<td>Periodic, take out of service?</td>
<td>Upgrades</td>
<td>Continual, by industry in-service</td>
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<tr>
<td>Tight, software intensive</td>
<td>Systems coupling</td>
<td>Loosely for continual upgrade</td>
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<tr>
<td>Periodically improved in service</td>
<td>Performance</td>
<td>Continually improved in service</td>
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<tr>
<td>Integrated Project Team</td>
<td>IPT</td>
<td>Integrated Product Team</td>
</tr>
<tr>
<td>30/50</td>
<td>IPT Size</td>
<td>5/6</td>
</tr>
<tr>
<td>Control design &amp; manufacture</td>
<td>IPT Purpose</td>
<td>Serve customer, better, faster, cheaper</td>
</tr>
</tbody>
</table>
Conclusions — 1

• US switching to lean *commercial* SE
• UK/European Defence Industry at imminent risk
• Smart Procurement promised to counter — *but* hijacked
  – Obsession with *imposing* requirements *and* in-project competition
  – regulation, contracts, DEFSTAN *straightjacket* on Industry
  – Lost opportunity — but is it too late?
• Recognize Total System-to-be-Optimized: —
  – supply system, market *and* military user in international competitive framework
  – hence *Total System* Acquisition
• TSA: —
  – **Affords:** national wealth creation; reduced national R&D; cutting-edge technology in-Service; international stability
  – **Obstacles:** procurement regulation; control paradigm
  – **Meets:** Capability goal; public-private partnership; VFM
  – **Needs:** swift, positive government deregulation
• Government *could* still “control” by setting Defence Capability Targets

• Competition *would* still occur between supply circles

• Europe *could* establish 2/3 agile, lean, volume supply chains
  – different national leads?
  – cross border/international suppliers (inc. S. America, E. Europe)?
  – = economic and political stability?

• Agile lean volume supply circles die without continual market
  – Wider European forces to become “home market”? 
  – Forces to gear up for continual change/new technology?

• Continual flow impracticable at platform level?
  – Secure UK “Skunk Works” to maintain national research edge?

Smart Procurement has made a start—
but we have *much* more to do to survive…