

RESPONSES OF MR. THAYER TO WRITTEN QUESTIONS SUBMITTED BY SENATOR ROTH

INCREASED COMPETITION IN AWARDING CONTRACTS

In July 1982, a status report on DOD's acquisition reform initiatives suggested that there had not been much movement in increasing price competition. There has been, apparently, difficulty in identifying appropriate areas and candidate programs.

*Question 1.* Could you bring us up to date on DOD's efforts to introduce more price competition into the acquisition process?

*Answer.* The DOD policy is that all procurements shall be made on a competitive basis to the maximum practicable extent. Recently, the SecDef in his letter of 9 September 1982 further reinforced our initiative on competition and requested a commitment to increase competition by all personnel involved in the acquisition process. To enhance competition, the Services and the Defense Logistics Agency have been directed to designate advocates for competition, ensure commanders understand their responsibility, establish goals for competition, place special emphasis on planning competition, and publicize significant achievements. We continue to emphasize the early planning of competition in our DSARC review process.

*Question 2.* Do problems still remain in identifying appropriate programs for increased use of competition? If so, please explain them to us.

*Answer.* The production phase has been the difficult phase to carry out competition and requires in-depth planning to set the stage for the introduction of competition. This is primarily being introduced by establishing a second source at the prime level or subcontractor level for subsystems and components. It has limited application and we need to carefully select our programs for its use. The initial investment to qualify a second source before you can introduce a head-to-head competition is sizable. Other factors must be considered such as design stability, sufficient quantity and economical production rate to support two manufacturers, the status of the technical data package and amount of technological transfer from the prime, and the "make or buy" mix of the prime when planning a dual effort. Because of the various factors to be considered, as well as the sizable initial investment to introduce a second sourcing, Dr. Richard D. DeLauer, Under Secretary of Defense for Research and Engineering, is personally reviewing plans for the second source of major systems acquisition.

*Question 3.* What are the reasons for such minimal use of price competition during the production phase and, in your opinion, how valid are these reasons?

*Answer.* Competition in the weapons acquisition process occurs at many levels of which the production control decision is only one example. Modernization of military hardware competes with operating and support costs for the resources on the total defense budget. The advancement of the technology base and maintenance of the mobilization base compete with system acquisitions for that portion of the budget which is allocated to modernization. At the inception of an acquisition program design concepts are competed to select the most promising approaches within our affordability constraints. Finally, we get to the production phase of an individual system acquisition program where it still competes with other production programs. Our prioritization, whether in R&D or in production, must be responsive to the military and political objectives of the nation. Uncertainty and changing priorities can have a significant destabilization effect on a program which may take ten years from design competition to production.

Recognizing this inherent instability, we are nevertheless emphasizing the development of an acquisition strategy from the inception of an acquisition program. The determination of whether or when to initiate price competition (as opposed to design competition) is influenced by the total quantity of end items to be acquired, the rate at which we can afford to buy them, and the incremental cost of the facilities necessary to put a second source into production. For example, if an end item is to be acquired from a sector in industry which is operating substantially below capacity and if the end item can be produced with existing facilities, the incremental cost of a second source may be quite small. Conversely, the cost can be substantial if new investment in expensive tooling, production machinery, and processes is required for the second source. In some cases, the potential savings from competition as well as alternative strategies (such as component breakout) have to be considered. Most importantly, once a particular strategy is selected, it cannot be changed easily without incurring penalties in the form of uneconomical production rates, schedule slips, sole sources of supply, and inefficiencies resulting from the use of obsolete production facilities and processes.