

**Defense Industrial Policy Series
Atlantic Council, Washington, DC**

The Honorable Deborah Lee James
Secretary of the Air Force
Wednesday, 14 Jan, 2015

—As Prepared Remarks—

Introduction:

- Happy New Year! Good afternoon and thanks to the Atlantic Council and the National Defense Industrial Association (NDIA) for partnering to host today's event.
- I'd also like to greet our virtual audience—to those of you watching the live stream, thanks for joining us.
- In a few weeks the President will release his budget to Capitol Hill. We are hopeful we will be funded above sequester level, but no matter how the Air Force is funded—it's clear that one of our mandates is to steward the taxpayers' dollars the best way we can.
- Making Every Dollar count is one of my three top priorities and is critical—but we must do more. We must stop spending more to get less and less.
- Back in 1986, Norman Augustine cautioned that by the year 2054, the entire defense budget will purchase just one aircraft if the rate of growth in costs continued to go up, up, up...and we don't want to get to that point!
- We must actually bend the cost curve, to bring those costs down, down, down. This will be a key topic of discussion this afternoon.
- I also want to talk with you about speeding up all things acquisition. Today, we in the Air Force are just too slow.

- Here's a terrible factoid. We currently average 17 months to award a contract in situations where we know there's only one supplier. That's simply too long.
- And we also have great difficulty adapting to new technologies, even though our future depends, in part, on keeping our technological edge.
- This past summer you may recall we released a new strategic framework document entitled, "A Call to the Future", in which we talked about the need to institutionalize a concept we call "strategic agility".
- Strategic agility means we need to be more flexible, adaptable, responsive, and quick in all that we do—from the management and training of our people to how we develop and purchase our equipment.
- Specifically, "strategic agility" should not only help bend the cost curve, but it should also help us stay ahead of our adversaries and counter uncertainty because we will be able to move more quickly and better take advantage of cutting-edge technology.
- Frank Kendall's Better Buying Power and Secretary Hagel's *Defense Innovation Initiative*, overseen by Deputy Secretary Bob Work, are in whole or in part targeted at the same overarching goals:
 - Reducing Costs
 - Moving more quickly, and
 - Improving our technological edge
- In the Air Force, we are being complimentary to these efforts with what we call our "Bending the Cost Curve" initiatives. You might ask: how does "Bending the Cost Curve" differ from Better Buying Power. This is a fair question.
- Unlike Better Buying Power, which is a broader set of practices and techniques for the workforce to employ, "Bending the Cost Curve" is a targeted initiative to encourage innovation and active industry partnerships to improve the way we procure our systems and to drive down cost.

- So I've been laser-focused on this since I became Secretary, and I'm not alone in this endeavor. Our Air Force Service Acquisition Executive, Dr. Bill LaPlante, the Commander, Air Force Materiel Command, General Janet Wolfenbarger, and our Director of Transformational Innovation, Dr. Camron Gorguinpour, all of whom are here today, are driving us forward in this effort.
- So how will we get there from here?
- The Chief and I realized from the very beginning that to achieve our goals, we needed an improved dialogue with industry, so we can better understand how processes, procedures, and some of the choices we make can inadvertently contribute to rising costs, the stifling of innovation, and slow processes.
- Therefore, we've been meeting since February 2014 with industry representatives, thanks to tremendous support of AFA, NDIA, AIA, and a few other industry groups who have helped facilitate the dialogue.
- And we've been asking:
 - What are the barriers to introducing new technology?
 - How can we speed this up?
 - How can we improve transparency?
 - How do we spend taxpayer dollars on products and not bureaucratic processes?
- We've listened hard to our industry partners and they have listened to us.
- Today, we're about to kick this up a notch and share some progress and next steps with you. We've arranged our "Bending the Cost Curve" initiatives into three focus areas I call "Enhance, Expand, and Improve".

Focus Areas

- Enhance means we need mechanisms to better interact with industry throughout the acquisition lifecycle.

- Expand means we need to increase competition among traditional and non-traditional industry partners to drive down costs and to increase innovation.
- Improve means we need to carefully examine our own internal processes and develop mechanisms to drive down costs and to speed up our acquisitions.
- With these three focus areas in mind, let me now cover some of the activities we are planning.

Bending the Cost Curve Programs (Enhance)

- Under the umbrella of enhancing interactions with industry, we are launching a “**Cost Capability Analysis**” (CCA) program.
- Here’s our thinking. We think that by gathering data from a range of sources, it should be possible to identify instances where small changes in capability have large impact on cost. This, in turn, should mean that the Air Force can develop much more affordable weapon systems.
- For instance, if we have a requirement that a jet fly 500 mph, but can achieve significant cost savings by amending this to 450 mph, we may use this information to make tradeoffs in how we develop the Request for Proposals (RFP) and evaluation factors. In some cases, we may even choose to modify our requirements.
- Now, you may be thinking – hasn’t this approach been tried before? The Air Force had tinkered with CCA-like activities in the past. Two years ago, we piloted CCA—no pun intended.
- Unfortunately, two years ago, there was no formalized process for industry to get on board.
- What “Bending the Cost Curve” does for CCA is develop that specific industry engagement process, and we hope, will reform the way we talk to industry about requirements.

- Our “Bending the Cost Curve” team is developing that engagement process now and today I’m excited to announce that we will demonstrate Cost-Capability Analysis in conjunction with four programs.
- The four programs are: the T-X jet trainer, Long Range Stand-Off weapon (LRSO), the Multi-Adaptive Podded System (MAPS), and our Space-Based Infrared System (SBIRS) follow on, all of which were selected because they represent a range of use cases and segments of industry.
- We’re two years away from the T-X request for proposal, and our new process will allow us to directly engage industry as we develop an understanding of how to best evaluate our objective and threshold requirements.
- The other programs are at different stages in their acquisition process, which will give us a powerful comparative for learning the nuances of how to best engage industry around requirements.

Bending the Cost Curve Programs (Expand)

- Moving on to expanding competition, I’m extremely excited about **“PlugFest Plus”**.
- A “PlugFest” is a specialized industry event where companies collaborate and demonstrate their existing capabilities in live demonstrations for government customers.
- OSD’s Defense Intelligence Information Enterprise (DI2E) program has established an entire community of practice around these events, which currently occur 2-3 times per year.
- While very well-regarded, PlugFests in their current form have no associated contracting action.
- So industry might attend a PlugFest event, the government would be wowed by their capabilities, and have no way to easily follow up. This meant business got a pat on the back and a gold star, but no mechanism to actually obtain work.

- Under our new PlugFest Plus approach, we will put in place a mechanism whereby a vendor could walk away with a contract just a few weeks after an event.
- We accomplish this by combining these industry events with an Army acquisition model, which minimizes barriers for companies to participate.
- Our first PlugFest Plus industry day will be January 20th at George Mason University, hosted by the Association for Enterprise Information, and we've decided to demonstrate this strategy with the Air Force Distributed Common Ground System (DCGS)...a system that produces intelligence information from data collected by a variety of sensors—primarily Unmanned Aerial Vehicles—but other ISR platforms as well.
- DCGS seemed like a good fit for this first industry event given that it's based on open architecture. PlugFest Plus is also based on open architecture. And if this event proves successful, we will take steps to evolve the process to other Air Force applications.
- I also hope many of you will compete for a \$2 million prize in our first of this magnitude **"Air Force Technology Challenge"**.
- The Air Force Technology challenge is an Air Force Research Laboratory-led effort, designed to expand competition and facilitate rapid technology development.
- The \$2 million prize is the largest offered by any military service and will go to the competitor with the most innovative solution for developing a mid-sized turbine engine for use on commercial and military platforms, which could be especially helpful to us in the world of Remotely Piloted Aircraft (RPAs).
- This technology challenge, as well as PlugFest Plus can help us "bend the cost curve" in two ways. First, both approaches should open the door to non-traditional contractors by lowering the barriers to entry. Second, we hope they will spur innovation.

Bending the Cost Curve Programs (Improve)

- Now let's turn to improving our internal processes. During the first round of "Bending the Cost Curve" industry engagements, the number one recommendation from corporate CIOs was that the Air Force should establish a business analytics capability.
- Many large companies have a business analytics capability. That is to say, they collect a significant amount of data—and are able to draw interesting conclusions from that data. That's business analytics.
- Now I want to be clear—I'm not talking about personal data such as which websites you visit or how often you buy a product.
- The data we're interested in helps answer questions such as "will a new database make us 30 percent more efficient" or "if I spend \$5 million today will it save \$10 million in the long run".
- The point is: the Air Force needs to get an enterprise view of our Information Technology spend so that we can understand tradeoffs and make wise future investment decisions.
- Unfortunately, we don't have a solid enterprise-wide view of our Information Technology today.
- Therefore, we are standing up an **"IT Business Analytics Office"**.
- In the future, if we say we want a new database to do "x", we will have a business case, empirical data, and metrics to back that decision up. What we're really after here is a data-driven approach to spending.
- Similar efforts in the private sector have yielded 25 percent cost savings or more, and we hope to share in some of that success in the Air Force.
- Here's another thing we intend to improve—Bill LaPlante and General Wolfenbarger recently issued a Best Practices Memorandum, capturing the top 24 "best practices" identified in collaboration with industry. We hope these best practices will reduce the time to award for contracts for which there is only one known supplier.

- I mentioned that ridiculously high 17-month timeline for these types of contracts earlier...
- We are enacting these best practices throughout our acquisition force and beginning to measure the results, ultimately driving award timelines from 17 months to single digits.
- We also intend to reduce overall the number of contracts where there is only one known supplier and to speed up the competitive side as well.
- A third way we are improving our internal acquisition processes is through what we call the **Matchmaker Project.**
- The Matchmaker Project collaboratively shares lessons learned from acquisition successes across industry and Air Force portfolios.
- In other words, when a company has success with the Air Force, we want to apply those lessons on pending projects with a different division of the same company. We also want to share these lessons with others across the Air Force.
- Those currently serving in industry or government, and those who have previously served, can admit that we don't always collaborate across our companies as well as we should or across our government as well as we should. Matchmaker is taking that problem on.
- We've already had good success with our first endeavor—Lockheed Martin and our C-130 and SBIRS teams.
- In October 2014, Lieutenant General Ellen Pawlikowski invited our C-130J team and Lockheed Martin Aeronautics to be part of an information and best practice exchange session.
- This session also included members of her Air Force team as well as members from Lockheed Martin Space Systems, the division of Lockheed responsible for SBIRS.
- This was "Matchmaker" in action: it provided an opportunity to share knowledge and best practices across a diverse group of programs.

- In turn, these best practices, learned by the Aeronautics Division of Lockheed, inspired new thoughts on improving program management efficiency within the Space Systems Division.
- And it will help the Air Force achieve better affordability in both the C-130J and SBIRS programs.
- Not only is this helping us implement better practices for C-130J, but we are also developing cross-enterprise awareness within the Air Force and within Lockheed.
- We are currently working to expand Matchmaker to involve more industry partners and more segments of the Air Force portfolio and to formalize Matchmaker as part of our ongoing acquisition improvement process. More to follow on this at a later date.

Conclusion

- Let me conclude by saying that Bending the Cost Curve will require us to be strategically agile.
- We'll need to apply persistent focus and bold leadership and ongoing dialogue between the Air Force and our industry partners.
- Bold leadership also needs to come from Congress to end sequestration and to make additional changes as they are developed and put forth so that, together, we work to improve the acquisition process.
- All of the ideas I spoke about today came out of the dialogue with industry that the Chief and I began about a year ago. All can be implemented within our existing Air Force authorities—and we are marching out to do so.
- By the way, there is additional information on all the “Bending the Cost Curve” initiatives I mentioned available in the back of the room. And of course Bill LaPlante, Janet Wolfenbarger and Camron Gorguinpour can provide additional context as well.
- Stay tuned, however, as this is just the beginning.

- You should expect to see many more activities emerge in the coming months as we continue to engage with industry and other key stakeholders on “Bending the Cost Curve”.
- All of this will be hard—but it’s worth the effort because we are the best Air Force on the planet and we must keep it that way.
- I look forward to building our future together. Thank you. Now I’ll open the forum up to questions.