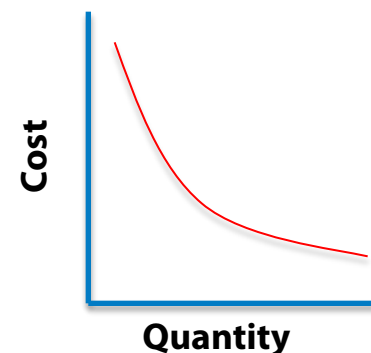


# A Holistic Approach to Multiyear Procurements

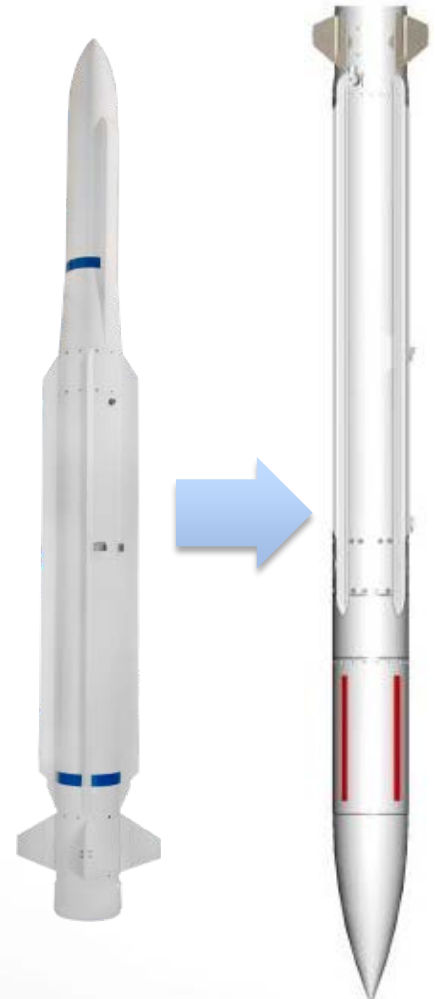
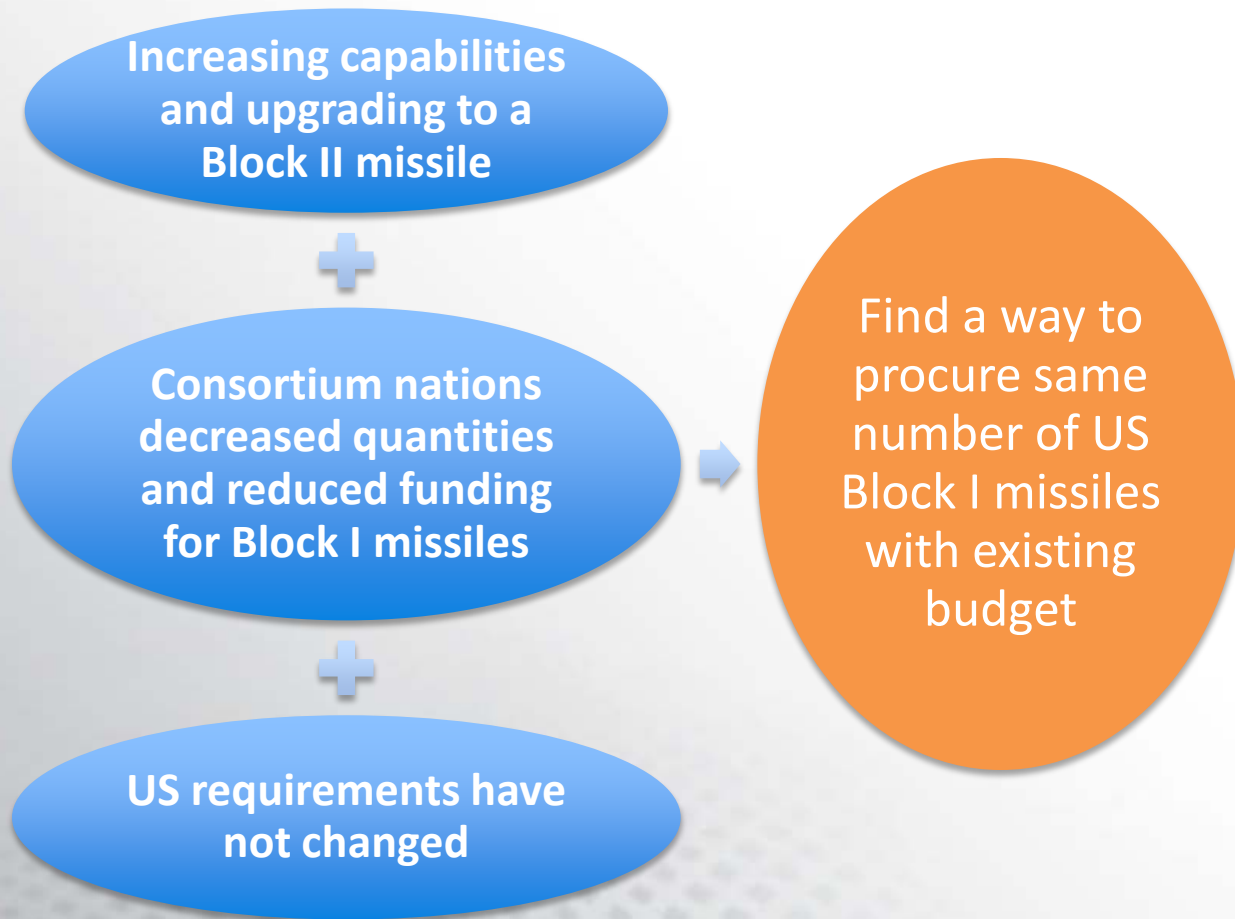


SYSTEMS THINKING. SMARTER SOLUTIONS.™

- Problem
  - With decreased quantities driving up costs, the program was tasked to find a way to procure requirements under existing funding
- Approach
  - Strategy: How to do more without more – MYP planning
  - Measurement: Is the program a good MY candidate?
  - Analysis: Development of cost models to show year-by-year costs vs. multiyear costs
- Solution
  - Redesign: Improvements to process and creation of cost projection tool
  - Transformation: Results and future state of program



As the program transitions to the Block II missile, the production of the Block I missile is ramping down, significantly increasing its unit cost



## STRATEGY

Holistic view of needs, constraints, and risks, allows for efficient planning and successful execution of the mission

## TRANSFORMATION

Enabling programmatic improvements to transform strategy and operations so our clients can meet tomorrow's challenges

## REDESIGN

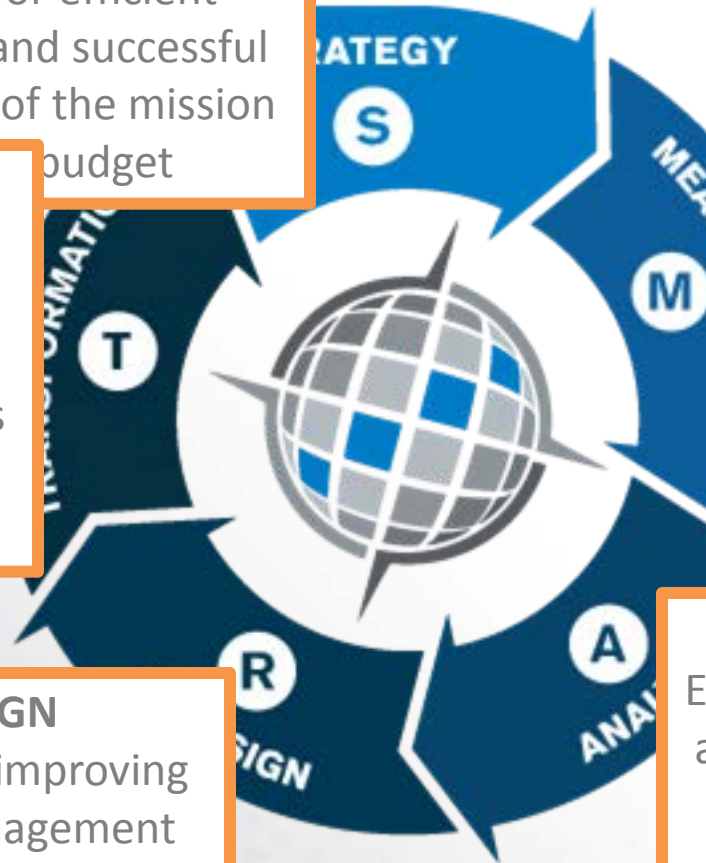
Continuously improving program management tools and processes for efficiency, accuracy, and reliability

## MEASUREMENT

1. Analyzing historical data, conducting research, and benchmarking
2. Developing meaningful, measurable indicators of program and project success
3. Identifying trends, drivers, and key

## ANALYSIS

Evaluating cost, schedule, and resource constraints to prioritize investment alternatives and enable better management decision making



**“ THE F-18 MULTIYEAR...WILL ALLOW THE CONTRACTOR...TO MAKE A FIVE-YEAR PLAN, SMOOTH THE WORKFORCE, ORDER PARTS FOR THE FUTURE. THESE ARE ALL THE WAYS THAT YOU GET PRODUCTIVITY IN AN INDUSTRIAL ACTIVITY, AND WE’RE LOOKING FOR THE KIND OF PRODUCTIVITY IN OUR DEFENSE ACTIVITIES THAT...WE SEE IN THE COMMERCIAL WORLD...ONE WAY TO DO THAT IS BY GIVING THE CONDUCTORS OF THAT WORK A SPAN OF TIME THAT THEY CAN PLAN IN. – 14 SEPTEMBER 2010 ”**





A multiyear contract realizes economies of scale by procuring larger quantities than would be procured with a year-by-year contract structure

### Option A: Weekly Shopping



### Option B: Monthly Shopping



## A Multiyear Contract is defined by its purchasing timeframe and adherence to government regulations



### Procurement Requirements

Purchase of supplies and/or services for more than 1, but not more than 5 program years

Government contracts for entire quantity at the outset



### Government Requirements

No requirements to exercise an option for each additional program year procurement

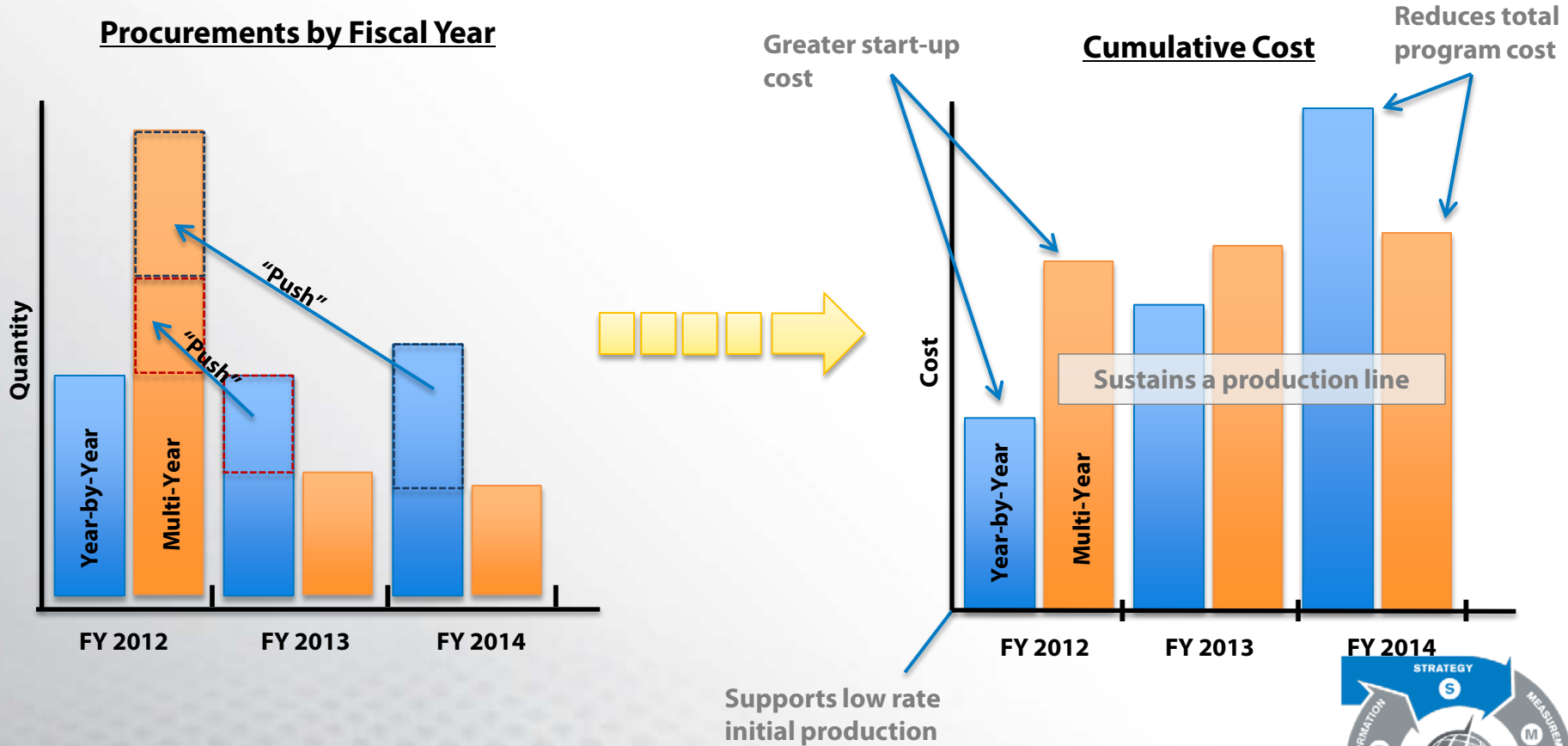
The second and subsequent years of the contract is contingent up the appropriation of funds

Large multiyear contracts must be specifically approved by Congress

Complies with statutes and regulations



EOQ is an exception to the full funding policy that allows the use of advance procurement to purchase more than one FY of program needs





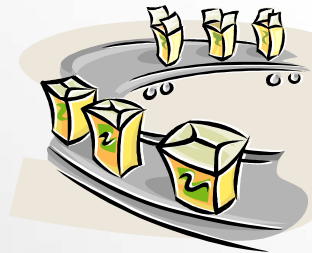
**Multiyear contracts are subject to a negotiated cancellation ceiling, which differs from a conventional termination of contract**

	Termination for Convenience	Cancellation
Type of Contract	Conventional	Multiyear
When Action May be Taken	Anytime during performance	Anytime, but usually at the start of a FY
What the Action Affects	Either the total quantity or a portion	All subsequent FY quantities
Reason Action is Taken	Best interest of the Government	Funds are not available for succeeding FY
Contractor Action	Submits settlement proposal IAW FAR 52.249-2	Submits cancellation claim IAW FAR 52.217-2
Termination Liability	As negotiated	As negotiated (cancellation charge) but within ceiling

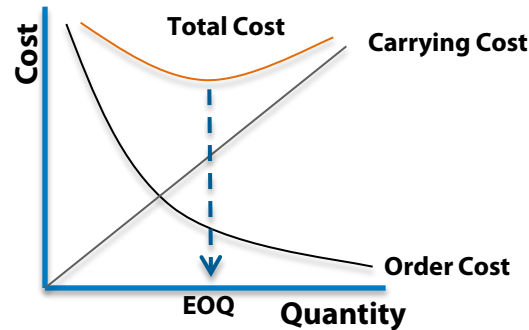
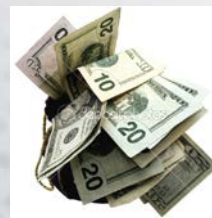


## Multiyear contracts have lower unit costs compared to annual contracts

Purchase of parts and materials in lot buys that reflect economic order quantities (EOQ)



Limited engineering changes due to design stability during the multiyear period



Improvements in production processes and efficiencies



Cost avoidance by reducing the burden of placing and administering annual contracts



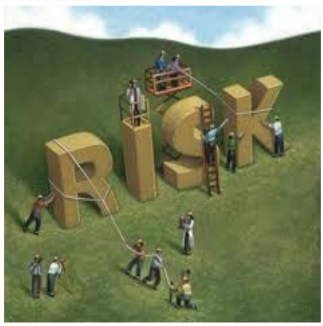
## Multiyear contracts have a number of benefits in addition to lower costs



- Stabilize contractor plans and work forces
- Enhance industrial base
- Provide continuity of production
- Incentivize contractors to improve productivity
- Reduce administrative burden
- Broaden competitive base



## Multiyear contracts expose the Government to additional risks



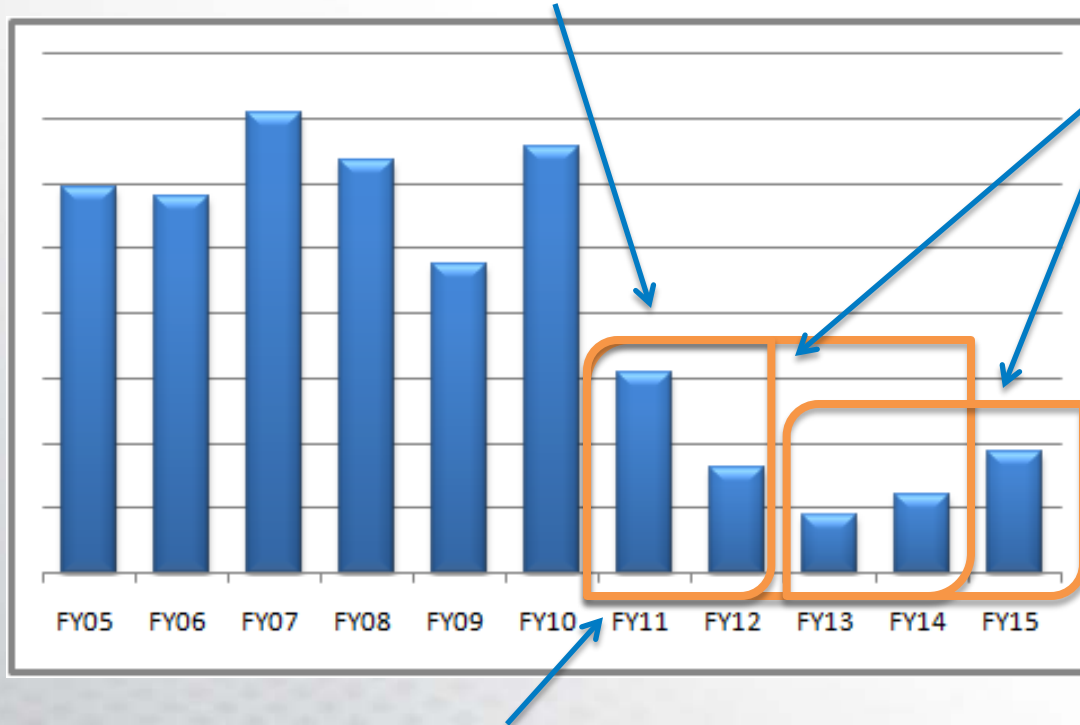
- Increase cost if contract is cancelled
- Decrease budget and program flexibility
- Require greater budgetary authority in the earlier years of the procurement



**Increasing the number of missiles in each lot allows for affordable missiles, which avoids a production line gap and restart costs**

Beginning in FY11, Block I missile quantities decreased

Final solution included a FY11/12 buy and a FY13-15 Multiyear



Originally proposed an FY11-14 Multiyear Procurement



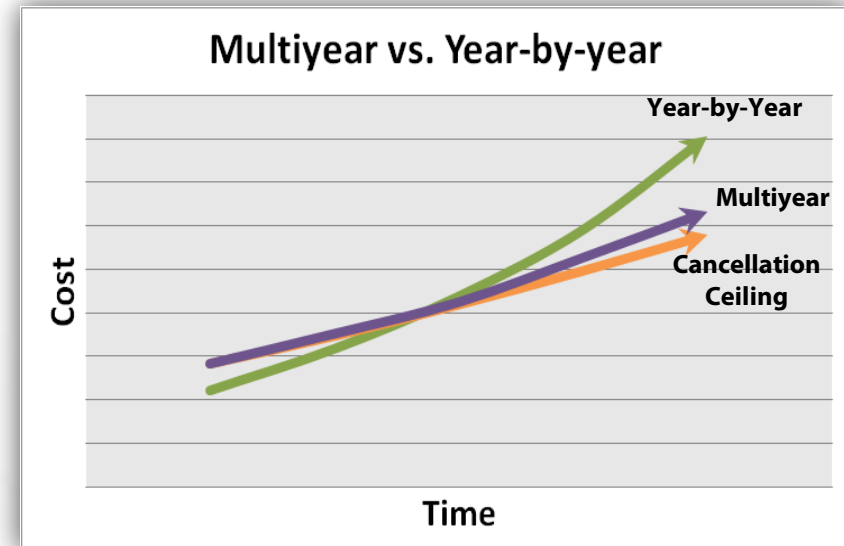


- Substantial savings
- Stable Funding
- Stable Design
- Realistic estimates of cost & savings
- Promotes national security

## Is Your Program a Candidate for MY?



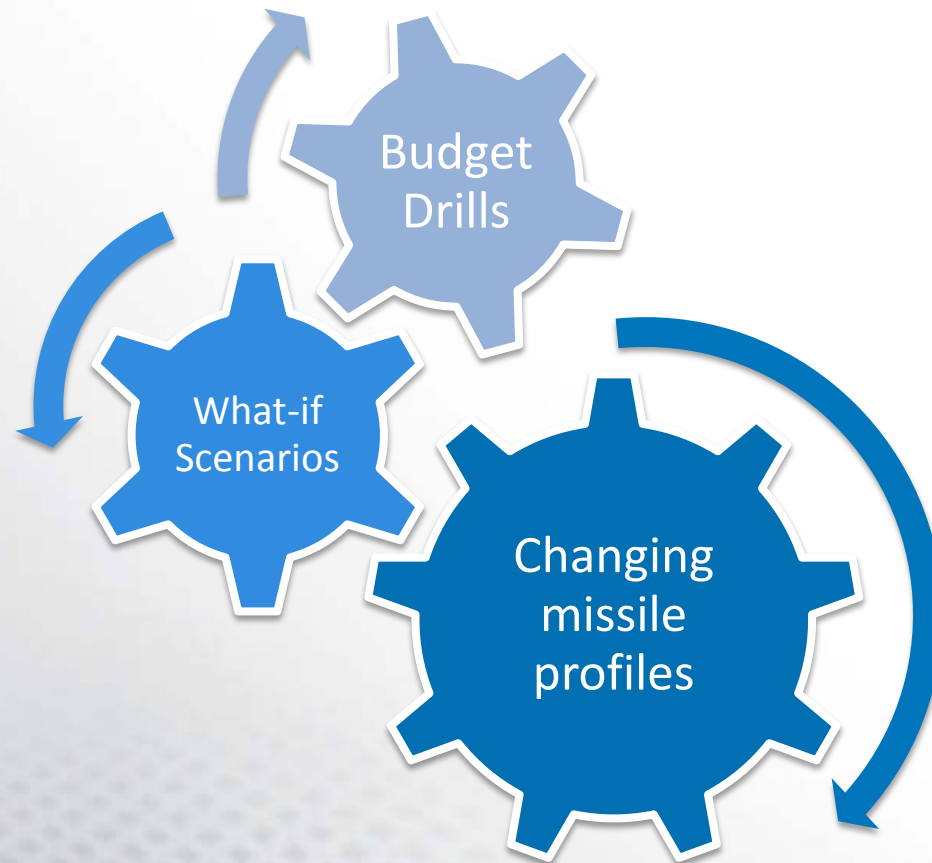
- Evaluation of the current state of the program
- Development of cost model
  - Evaluation of historical costs
  - Material unit prices and lot buys
  - Labor learning curves
  - Proposal preparation costs
- Year-by-year cost calculation
- Multiyear cost calculation
- Savings Analysis



[Tool Demo]



## Improvements to the cost model with Visual Basic for Applications allowed for quick turnaround and cost profiles



## Supporting Data

Previously  
Saved  
Profiles

Quantity  
Curves

Term Sheet  
Pricing

Inflation



Missile  
Profile  
Template  
Input Sheet

## LEGEND

Pre-  
Populated

Manual

Auto-  
Generated





Number of Cost Elements = 11

MK 41 TAC
MK 41 TLM
MK 41 TAC SBT
MK 41 TLM SBT
MK 41 TLM XBT
MK 48 TLM SP
MK 48 TAC SP
MK 29 TAC
MK 29 TLM
MK 56 TAC
MK 56 TLM



Start Year: FY13, End Year: FY15

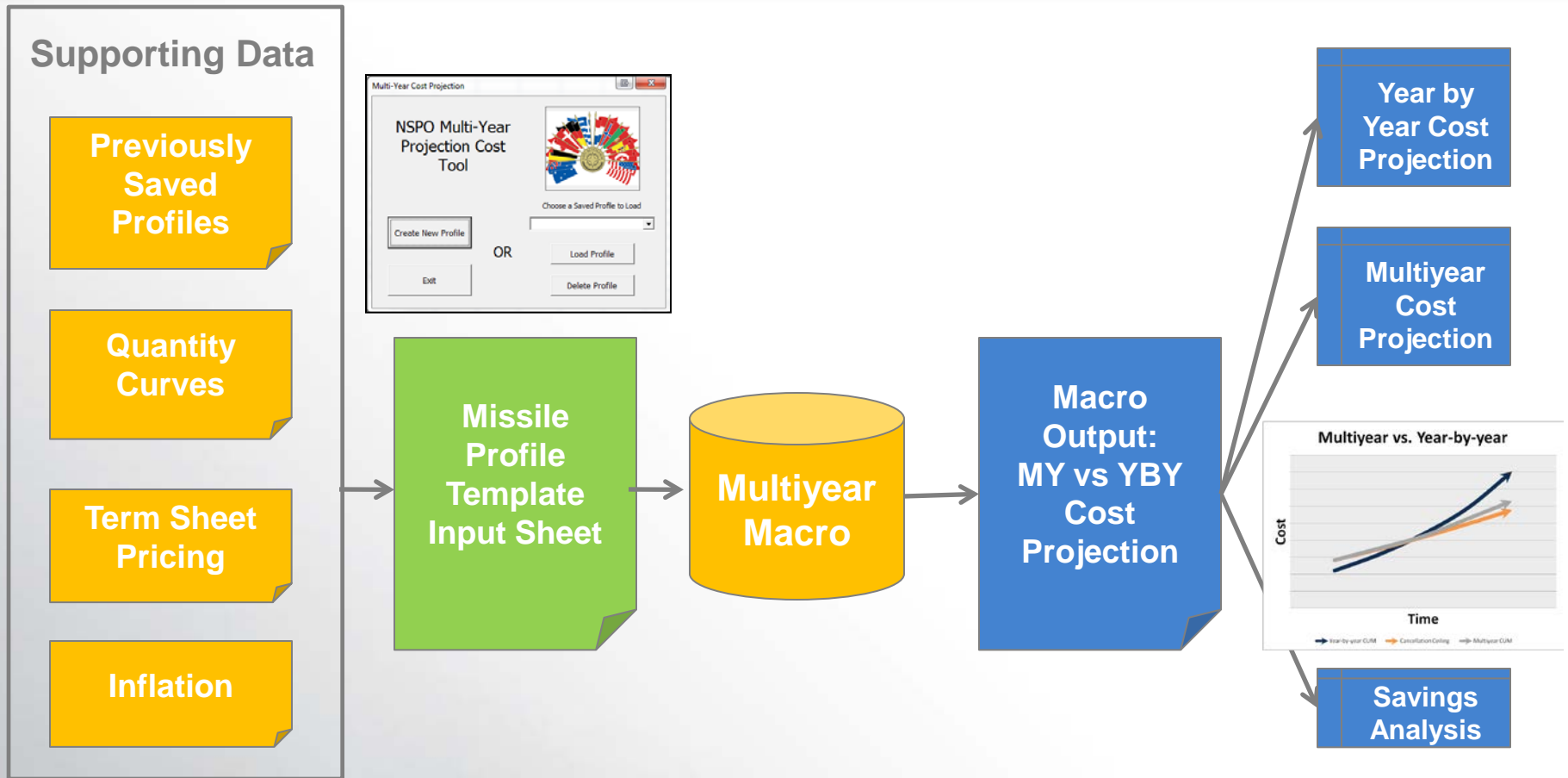
FY 13	FY 14	FY 15
-------	-------	-------



Enter in Missile Procurement Profile

Cost Element	FY13	FY14	FY15
MK 41 TAC			
MK 41 TLM			
MK 41 TAC SBT			
MK 41 TLM SBT			
MK 41 TLM XBT			
MK 48 TLM SP			
MK 48 TAC SP			
MK 29 TAC			
MK 29 TLM			
MK 56 TAC			
MK 56 TLM			





### LEGEND

- Pre-Populated (Yellow box)
- Manual (Green box)
- Auto-Generated (Blue box)



Model outputs a Year-by-year and Multiyear cost comparison table that includes missile outlay profiles, unit pricing, and projected savings

X, Y, Z/YR (YBY & MY Procurements)										
YEAR:	FY13	FY14	FY15	MY	US QTY					
TOTAL QTY:	X	Y	Z	X+Y+Z	FY13	FY14	FY15	TOTAL		
MK 41 TAC	<i>(Year By Year Unit Costs)</i>			<i>(Multiyear Unit Costs)</i>		<i>(Quantity Profile)</i>				
MK 41 TLM										
MK41 TAC SBT										
MK41 TLM SBT										
MK41 TLM XBT										
MK 48 TLM SP										
MK 48 TAC SP										
MK29 TAC										
MK29 TLM										
MK 56 TAC										
MK 56 TLM										
IOM										
<b>TOTAL:</b>										
<b>AVERAGE/MISSILE:</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
					(Costs for MY Procurement/Year)					





**Ann Hawpe**  
Senior Associate

**T** 202.609.7252  
**C** 202.441.3654  
**F** 202.609.7294

ann.hawpe@jlha.com  
1220 12th Street, S.E. • Suite 310 • Washington, D.C. 20003



**Travis Winstead**

**T** 703.602.1827  
**C** 757.719.0594  
**F** 202.609.7294

travis.winstead@jlha.com  
727 South 23rd Street • Arlington, VA 22202

