

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

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# 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

	Current Tankers		Current Transports		Proposed Tankers	
	KC-135R	KC-10	C-5	C-17	Boeing KC-46	EADS KC-45
Wing span / Length (ft)*	131/136	165/181	223/247	170/174	<b><u>156/159</u></b>	<b><u>198/192</u></b>
Max. fuel (K#)	200	356	330	----	<b><u>200+</u></b>	<b><u>245</u></b>
Pallet Capacity	6	27	36	18	<b><u>18</u></b>	<b><u>32</u></b>

# 2008 AF EVALUATIONS (close)

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

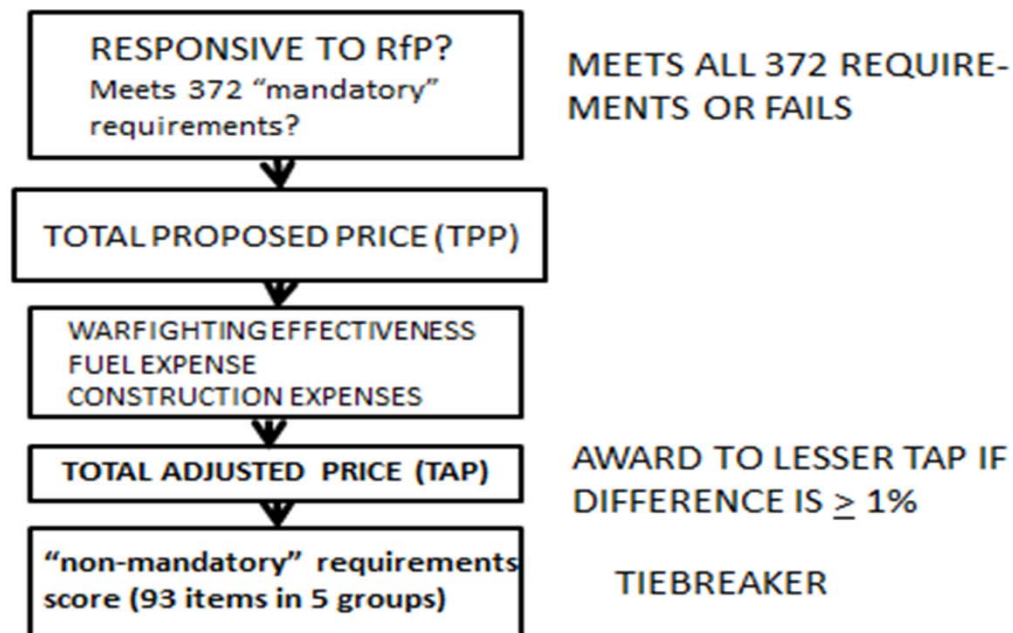
BLUE (best), GREEN, YELLOW, RED (worst)



# THIRD ATTEMPT

- DRAFT RFP (2009)
  - SIMPLE CRITERIA
  - STRONG EMPHASIS ON COST

## KC-X SOURCE SELECTION CRITERIA



# 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 accidentally 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

CATEGORY	BOEING (KC-46) \$B	EADS (KC-45) \$B
Total Proposed Price (TPP)	21.4	23.4
Fuel Savings	(0.5)	0
Basing Infrastructure	(0.3)	0
Warfighting Effectiveness	0	(0.8)
Total Evaluated Price (TEP)	20.6	22.6

# 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?)
- ...