

# INFORMATION PAPER

SAFM-RBA

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**SUBJECT: Recently Issued Defense Science Board 1996 Summer Study--  
"Achieving an Innovative Support Structure for 21st Century  
Military Superiority: Higher Performance at Lower Costs"**

**1. Purpose.** To summarize the key points contained in the Defense Science Board report referenced in the attached Washington Post article, dated Monday, January 27, 1997.

**2. Objectives.** The tasks of Defense Science Board study were to:

a. Identify specific areas and approaches for lowering support costs while enhancing performance.

b. Describe mechanism for implementing the changes so dollars can be shifted to modernization and combat capability and away from operations and support (O&S) functions.

**3. General Situation Reported.**

a. Many DoD support activities are outdated, inefficient, unresponsive, and costly. They are not matched to the evolving rapid and flexible style of warfare.

b. Support and infrastructure costs consume an increasing share--more than 55%-of the FY 1996 DoD budget. The primary cost driver is labor and the associated costs.

c. Of the 2.5 million military and civilian employees, more than 600,000 military personnel (40% of the active force) and almost all of the 900,000 civilians are in "support" roles. Others in the "force structure" are doing commercial type jobs. For example,

- The CONUS logistics infrastructure operates as a "middleman" between manufacturers of items and customers. The logistics community determines what it should stock, controls the purchase of stock, fills customer orders, and operates facilities to perform 70% of maintenance and repair. Operations include 166,000 military and civilian personnel and cost \$14 billion.

- 72% of "centralized training" is done by military when it might be possible to conduct some training via private resources more economically.

d. DoD's current privatization and outsourcing initiatives will yield only about \$1.5 - \$2 billion per year over the next five years.

e. BRAC savings are not being realized in MILCON or O&M. About 5,000 Army civilians who were RIFed through the BRAC process are still on the payroll due to congressional restrictions.

f. The current financial information structure is not adequate to implementing an effective support structure. Casting and reviewing resource allocation in mission output terms are essential prerequisites to linking mission needs with funding. This mission output focus concentrates supplier attention on the operational customer, makes the customer aware of the total price of what might otherwise be considered "free" services, and moves all participants to more realistic expectations and understanding of limitations.

g. Outsourcing does reduce support costs. It has been demonstrated that:

- Boeing & General Dynamics cut costs by 10-30% when outsourcing non-core functions.

- Since DoD is not always a world-class provider of its own support services, the potential savings from privatization and/or outsourcing would on the average yield a substantial cost savings or cost avoidance. For instance, the study notes the following generalized cost reductions:

- 15% cost savings when private sector outsources
- 20% savings in public sector competitive wins
- 40% savings when work shifts from public to the private industry
- 50% savings when outsourcing military billets

- In the last analysis, the DSB anticipates that private sector capability either will be created or enhanced from "robust competition" with the public sector.

**h. Financial Management.** While the report does not fully address the Planning, Programming, Budgeting and Execution System (PPBES), it does discuss broad financial management reforms that are the hallmark of several previous Defense reviews. In a section concerning budgeting, the report mentions key studies from 1984-1994 on the general question of improving business practices and concludes, "Just Do It"; that is, implement the recommendations that have been made hitherto. (For example, the DSB calls for reductions in headquarters staff of 30% which match exactly the recommendations of the Vanguard Study of 1992.) The DSB would also:

- Relate resource allocation to mission outputs

- Match CINC requirements to budgeting process at the outset of planning
- Outsource, privatize or eliminate many superfluous finance and accounting functions
- Cut people-, equipment-, and support-related areas to get \$30B savings by 2002
- Reduce O&S personnel--2%/yr. military, 5%/yr. civilians--to assist with \$30B shift

#### **4. Findings and Recommendations.**

**Findings.** The DSB Summer Study had more than one author. Consequently, there is no all-inclusive, systematic list of findings which pull the study together. The basic findings are that a "high risk" exists with projected modernization investment levels over the next six years competing with outlays for maintaining support functions and infrastructure. Dovetailing recommendations with the on-going Quadrennial Defense Review process will better leverage the impact of the study, according to the DSB.

An analysis of the total study must mention these key findings imbedded in the report:

- There is a near-critical decline of modernization dollars vis-à-vis O&M accounts
- Planned procurement for equipment will soon "train wreck" with infrastructure costs
- Savings in manpower, outsourcing/privatization, BRAC, etc., must=modernization cost
- Approx. \$30B/yr. must shift from support to modernization & combat needs over 5 yrs.
- DoD must closely mirror "world class commercial operations" on "non-core" expenses
- Reduction of civilians and military in "support" roles will buttress modernization needs
- Change combat and modernization to 55% of DoD budget--O&S, 45%
- Privatization and outsourcing must make up more savings than current \$1.5-2B/yr.
- Reform of financial information systems is needed for required accountability
- Reducing DoD civilians at a rate greater than 5%/yr. is necessary for \$30B/yr. shift
- Discontinue logistical community "middleman" role between producers and customers
- Change DoD education paradigm through distance learning and outsourcing
- DoD should get out of the housing business by relying heavily on market forces

- Reduce base support expense by outsourcing, consolidations & better economics
- Use the benchmarks created by agencies like NASA to downsize HQs
- Reduce redundant military forces
- Continue emphasizing acquisition, budgeting reform & emerging JCS/CINC roles

**Recommendations.** While somewhat blurred and intermingled in the report with "findings," two clear recommendations pervade the report:

(1) Reorient budgets with the warfighter in mind and reduce expenditures on all non-core functions through methods like outsourcing/privatization, and

(2) Design a budgeting and planning process that will closely link CINC, JCS and other leadership requirements with actual outlays for military wherewithal.

We believe this significant study will be revisited and will receive increasing press coverage as distribution is widened. Early and critical examination of its analysis and conclusions is recommended.