

Customer Concerns with Cost/Schedule Problems

Written by Nick Sanders
Monday, 23 May 2011 00:00

We've been thinking about how customers handle programs that are experiencing cost growth and/or schedule delays.

On April 26, 2011, DefenseNews [reported](#) that the Pentagon was implementing "should cost" program analyses on 14 major defense acquisition programs ("MDAPS") in order to "make the weapons' projected price tags more realistic and save money." The article discussed an April 22, 2011 memo from Dr. Ash Carter, in which he wrote—

It is essential that we eliminate cost overruns and begin to deliver programs below budget baselines that are set using independent Will-Cost estimates. I believe this is achievable if Program Managers continuously perform Should-Cost analysis that scrutinizes every element of government and contractor cost.

Meanwhile, Dr. Carter testified before the Senate that the F-35 Lightning II Joint Strike Fighter (JSF) program is going to cost at least twice as much "in real terms" as was originally estimated, according to [this Reuters report](#) .

According to the Reuters article, "This [situation] was 'unacceptable and unaffordable,' he told the panel, while voicing confidence the government would succeed in cutting excess costs in the coming months and years."

Senators weren't happy with the continued spiral of cost-growth. The story reported—

Committee chairman Carl Levin said new estimates of 'life-cycle' F-35 costs, including development, operation and maintenance, now top \$1 trillion. The committee has been a strong supporter of the program, but he asked Carter to present alternatives as a 'backup' option within a week.

'People should not conclude that we will be willing to continue that kind of support without regard to increased costs resulting from a lack of focus on affordability,' the Michigan Democrat

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said.

Senator John McCain of Arizona, the panel's top Republican, described the F-35 program as 'incredibly troubled' and a 'train wreck.' He suggested the Pentagon think of alternatives to the F-35 program if its costs cannot be brought down.

Carter, the undersecretary of defense for acquisition, responded that there were no good alternatives to the F-35, a multirole aircraft due to replace various aircraft in the military fleets of both the United States and its partners.

The Senate was unhappy with program problems of the high-visibility program, but what could they do? As Dr. Carter testified, there were "no good alternatives" and thus no credible threat to hold over the head of Lockheed Martin. All the DOD can do is deploy teams of "should-cost" analysts to harass the program team and (by the way) distract the team from its focus on execution.

Nice.

The U.S. is not the only country with such issues. The U.K. has had its own share of weapon system problems, as [this article](#) reports. As the result of its cost and schedule problems, the U.K. MoD cancelled the Nimrod UAV programme, after spending £3.6 billion. As [one article](#) reported—

The RAF Nimrod MRA4 project was aimed at updating the earlier Nimrod MR2 aircraft and dates back many years. As detailed today by Mr Cameron, *the programme is now running eight years behind schedule and 200 per cent over-budget*, with an initial requirement for 25 airframes reduced to nine.

The Defence Review calls for the Nimrod MRA4 to be cancelled altogether: an unfortunate end to a troubled development. [Emphasis added.]

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Even Russia is not immune from cost growth and schedule delays. [The Seattle Times](#) reported that—

The Kremlin says that President Dmitry Medvedev has fired several weapons plants chiefs and Defense Ministry officials over the industry's failure to deliver new weapons on time.

Medvedev also has reprimanded a dozen of other officials. Tuesday's move follows his recent meeting with arms manufacturers at which he criticized them for failing to meet last year's weapons orders and jacking up prices.

Here's [another take](#) on the same story.

... the president demanded answers: 'If high-level decisions are made, if funding is released, why are the weapons not delivered?' Medvedev quoted his presidential message—delivered to a joint session of parliament in November 2009—that in 2010, the Russian military would receive more than 30 land and sea-based long-range ballistic missiles, five Iskander ballistic rocket systems, 300 modern armored vehicles, 30 helicopters, 28 warplanes, three nuclear submarines, a naval corvette and 11 new military satellites in orbit. 'Why is this not done? This is absolutely unacceptable,' barked Medvedev, 'I did not invent the figures—you all sitting here approved them.'

Recalling the times of Josef Stalin's terror and the Gulag, Medvedev announced: 'In previous times, half of those present would already be doing hard physical labor in the fresh air.'
[Emphasis added.]

We have consistently noted that effective program execution is absolutely critical—especially in these economically troubled times. But it's interesting—at least to us—at the varied customer reaction to program execution problems.

In the U.S., politicians express grave concerns and the DOD scrambles to look like it has a plan to correct the situation, while admitting that it really has little alternative other than staying the course.

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In the U.K., troubled weapon systems have been cancelled.

And in Russia, people are getting fired while President Medvedev fondly reminisces about the good old days, when leaders would be sent to the gulag for failing to deliver weapon systems on time, for the budgeted amounts.

How will *your* customer react to *your* bad news?

[](#)