Lean Enterprise Partners LLC

WHITE PAPER

DEFENSE COST CUTTING

Cutting Admin Costs in the Defense Industry

Increased federal and state regulatory compliance, oversight and reporting are increasing costs and squeezing margins in the defense industry. Massive appropriation cuts are coming and new regulations are requiring more and more resources to ensure compliance. To remain competitive, organization leaders must take proactive steps to understand the impact of these changes on their business and bring costs down to offset the shift.

How would cutting 10-20 percent of overall compliance and reporting administrative costs impact your business?

How would it improve your price competitiveness?

How would it improve your overall net margin?

How much additional funding would be available for Research & Development?

What else could you do with improved margins?

What are the implications to the survival of your business?

What investment would give you a 300% ROI?

Lean Enterprise Partners' Compliance Cost Reduction (CCR) Program is one such proactive measure that provides a framework and set of LEAN tools to reduce administrative costs, an area typically left to its own devices but ripe with opportunity.

Congressional Impasse

Early in 2011, the U.S. was headed for sovereign default for the first time in history. The fiscal year 2012 (FY2012) federal budget was at an impasse; Congress could not agree upon appropriations. The turmoil created the potential for a possible "rebound" recession and greater damage to a still fragile business environment.

It is important to understand that appropriations and allocations are two different processes within the government budgetary system. Appropriation sets the budget for a particular line item, while allocation actually provides monetary funding for the line item. Interestingly enough, the two do not have to match!

The impasse resulted in Congress creating a "poison pill" which would enact automatic, dramatic decreases in appropriations across all lines of discretionary spending. Department of Defense (DoD) discretionary funding took one of the hardest hits—$28 billion in FY2012. Appropriations will drop by nearly 20% over the next few years, totaling over $168 billion in 2012 money.

In August 2011, the bipartisan Joint Select Committee on Deficit Reduction, also known as the "super–committee," was formed to break the impasse and prelude the enactment of the drastic cuts. The super–committee had 90 days to develop a plan for preventing the use of the "poison pill" (sequestration). The creation of the super–committee temporarily settled the stock market, the bond market and, to some extent, consumer spending.

However, by November 2011, after the start of FY2012, the committee had failed and appropriations were set to the "poison pill" (sequester in "government-speak") levels for FY2013 and out years. However, with the impending 2012 elections, Congress postponed the enactment of the Sequestration until 28 February 2013.

As of 01 March 2013, Sequestration took effect. The across-the-board cuts hit DoD especially hard. As a result dramatic cuts were made in funding various procurement programs, operations and maintenance, and personnel. No program was completely secure from the axe. Thus no program

This is just a fraction of the current federal code.

was deemed "too big" to cancel or curtail. The effects are yet to be fully felt, but many programs will be affected.

In the late 1970s, the deep cuts in military spending resulted in significant decreases in operations and maintenance allocations. The impact to businesses producing spares, replacement parts and services was devastating. There is strong potential for the same situation to arise again, this time with dramatic cuts in defense spending. Competition for DoD contracts will be greater than ever. Moreover, contract performance will be a critical factor in retaining existing contracts and/or receiving new ones.

The Big Squeeze

The Federal Acquisition Regulations (FAR) and Defense Acquisition Regulations (DAR) alone take several dozen linear feet of shelf space; then add EPA, ADA, green initiatives, agency audits and the 40,000 new regulations and you have a tremendous reporting and compliance workload. In fact, most businesses have full–time positions and often complete departments assigned to handle it.

Some estimates indicate compliance monitoring and reporting makes up 30+ percent of the cost of doing business, especially on federal contracts.

Defense industry margins are now getting squeezed from—price competition, contract curtailment/cancellation and compliance cost increases—in an ever-tightening vise. In response, leaders are seeking new ways to improve margins.

Compliance Monitoring and Reporting

30%

However, the cost of compliance reporting has not changed. If anything, it has become a greater portion of the cost of doing business with the Federal government. Therefore, it is imperative that Lean principles be applied in the area of compliance reporting

How Do You Spell Relief? L • E • A • N

One of the most overlooked areas for improving margins is cutting the costs of contract administration, compliance monitoring and reporting, where inefficiencies can quickly work their way into the business.

LEP's Compliance Cost Reduction (CCR) Program is aimed directly at reducing administration costs through Lean techniques while still maintaining full compliance. It is a framework and set of tools designed specifically to improve net margin by eliminating waste and inefficient processes.

LEP's holistic approach is unique in the industry. Our team of Lean experts applies the appropriate set of tools that meet your specific needs and help you gain a competitive edge.

About LEP

Established in 1998, LEP is transforming businesses by solving today's challenges and planning tomorrow's success. We base our success on helping companies achieve real change and strategy for sustainable success.

LEP has a solid, distinguished reputation for:

- Skilled consultants and staff who are truly experts selected for your specific needs
- Implementing sustainable, holistic solutions
- Guaranteeing and achieving a ROI of 300% for you in the first year.

Communicate. Innovate. Accelerate.

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