

The Smart Procurement Initiative – “Faster, Cheaper, Better”.

An MPA seminar held at Templeton College, Oxford in January 2001

MPA events are confidential, although this summary has been compiled so as not to breach confidentiality. Full proceedings and entry to MPA events are available only to members.

Participants

More than 90 participants attended the seminar and the following organizations were represented:

BAA, BAE SYSTEMS, Balfour Beatty Major Projects, Bechtel Ltd, Bovis Lend Lease, British Telecom, British Energy, Brown & Root, Defence Procurement Agency, European Investment Bank, FR Aviation Ltd, Freshfields Bruckhaus Deringer, Herbert Smith, High-Point Rendel Group Plc, Intrepid Energy North Sea Ltd, KSP Development Ltd, Laing Ltd, Lockheed Martin UK Integrated Systems, Ministry of Defence, Mott MacDonald, Mouchel, National Grid Group Plc, National Audit Office, PA Consulting, PricewaterhouseCoopers, Rail Link Engineering, Rolls-Royce Marine Power, Scott Wilson Kirkpatrick, Shadow Strategic Rail Authority, Sir Robert McAlpine Ltd, Thales Naval Ltd, Thames Water

Defence procurement has a history of, too frequent, cost overruns, failure to meet schedules, high-profile criticism from the National Audit Office and media glee when problems are at their worst.

The problems ran deep, and related as much to the changing world as to MOD bureaucracy. Changing political threats and strategic defence needs, rapid advances in technology and a restructured defence industry had created a whole new context in which reform was inevitable. Building on the assessments of MOD’s Strategic Defence Review, the Smart Procurement Initiative was launched in 1997 and (accompanied by the Acquisition Organisation Review) has transformed the way in which defence equipment is procured. The watchwords are “faster, cheaper, better”.

The need for reform

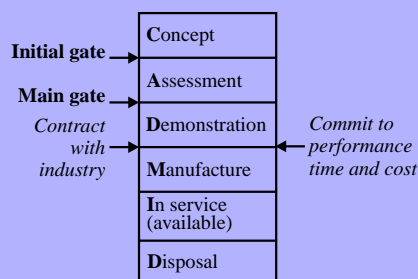
- Cost overruns and slippage on defence projects.
- New performance targets set by the Treasury.
- Less predictable military threats and different strategic needs.
- Increasingly complex defence equipment and rapid technological advance.
- Restructuring within the defence industry.

Getting there

- The use of external consultants was essential to reform, allowing MOD to contemplate root-and-branch changes. The consultants identified the barriers to change and McKinsey’s recommendations on strategy, processes and organization were of enormous value.
- Two new organizations were created, the Defence Procurement Agency (an MOD agency) and the tri-service Defence Logistics Organisation.

Tools and structures

- A modified acquisition cycle with only two points of approval (initial and main gates) has resulted in a more efficient, streamlined process (see figure to left).
- An Acquisition Handbook was produced and put on the worldwide web.
- The principle of spending money sooner in order to realize greater savings later has been laid down. Up to 15% of procurement costs should be spent before the main approval gate is passed, in order to reduce risk and support costs.



CADMID, the modified acquisition cycle

- The concept of the integrated project team was developed and 11 pilot projects were run to kickstart the process.
- Greater emphasis is placed on a clear definition of requirements.
- Capability working groups were set up—stakeholder groups responsible who advise on their own areas.
- A competitive procurement strategy was adopted, with no preferred bidder.
- Best practice is taken from other programmes, inside and outside defence.

What next?

- Consolidation is the next stage. Organizational change took 18 months; cultural change will take three to five years.
- Whole-life costs of defence equipment are being taken into account at the design stage.
- A through-life management plan provides information to stakeholders and allows tighter control of the programme.
- Gainsharing presents attractive opportunities.
- Commercial initiatives, e.g. a supply-chain code of practice, incentivization, e-commerce and pricing, are being promoted by the Commercial Policy Group.
- E-business offers opportunities for the supply chain, process improvement and even tendering. MOD is running a pilot electronic tendering exercise.
- Industry might be brought into the IPTs at an earlier point.
- Training and career commitment should be encouraged.
- Best practice should be more widely shared, with use of the interactive facility in the Smart Acquisition website.

Lessons for other industries

- If well used, external consultants provide a source of strength when expert advice and a catalyst for change are needed.
- A straightforward approvals process maintains momentum and morale on the project.
- Spending upfront to reduce risk is a wise move.
- Integrated project teams offer an effective, well-liked organizational and cultural basis on which to implement a project.
- Time spent on defining requirements is time well spent in any industry.
- Best practice should be explored and acted upon: those who forget (project) history are destined to repeat its mistakes.
- Cultural change takes longer than organizational change.
- Forms of gainsharing and partnering are possible even with clients in the public sector.
- E-business is the way ahead.
- Early industry involvement has much to contribute.

Case study 1

The future aircraft carrier (CVF)

The Strategic Defence Review recommended the procurement of two new carriers. They will come into service in 2012 and 2015, with initial acquisition costs of £2.7 billion. The programme is now at the assessment stage.

The challenge ...

- Lengthy programme and even lengthier lifespan of up to 50 years.
- Complex technology and interlinked projects.
- Smart Acquisition still in its infancy and the use of ITPs still new.
- History of time and cost overruns in defence.

... and the tactics adopted

- Requirements are carefully defined and clearly “atomized”.
- Two consortia’s bids are being taken forward for assessment.
- Cost is being carefully analysed, with the help of various models.
- Whole-life costs are being considered during the design stage.
- Cost capability trade-offs are an integral part of the requirements capture.
- Competent, enterprising ITP, with a leader recruited from industry.
- Three-stage process of risk review and reduction.

Case study 2

Through-life management plan for air-launched munitions

A management tool of Smart Procurement is the through-life management plan (TLMP). The IPT for air-launched munitions covers 30 programmes during the in-service period and disposal. The aim was to create an interactive tool, with current cost and performance information, to help stakeholders make decisions.

The challenge ...

- Wide range of munitions and complex network of customers.
- Developing a standard format.
- Storage and weapons testing.
- Managing risk.

... and the tactics adopted

- IT-based solution adopted, accessible via an intranet.
- Well-designed, useful TLMP database created.
- Further development required.