



Price-Based Acquisition May Have Only Limited Benefits for the Purchase of Major Weapon Systems

The U.S. Department of Defense (DoD) has recently experimented with changing the way it purchases major weapon systems. Typically, the government uses a cost-based acquisition (CBA) approach, which bases the price for developing and producing a weapon system on certified cost data that the contractor must supply. Critics of CBA argue that it imposes heavy regulatory burdens on the government and contractors and discourages potential civilian firms from competing for government projects. Under price-based acquisition (PBA), the government asks contractors to bid for projects without having to provide exhaustive data on what the system actually costs. Proponents suggest that PBA can shorten development schedules and reduce government and contractor overhead costs by eliminating the steps necessary for reporting and analyzing cost data. PBA is also thought to lower the prices for major weapon systems by allowing contractors to benefit from efficiencies and by making it attractive for more civilian contractors to compete. DoD has endorsed the use of PBA in the Air Force and other military services.

Unfortunately, a lack of empirical data about the implementation of PBA has made it difficult for policymakers to know whether PBA ultimately holds the benefits that are claimed for it and what challenges truly exist. RAND Project AIR FORCE (PAF) carried out a study of PBA experiences in DoD and among private defense contractors to provide a better understanding of how DoD can best use PBA approaches.

It Is Difficult to Prove that PBA Saves Time and Money

DoD has implemented PBA in conjunction with other reform measures, making it difficult to measure the benefits. PAF found little compelling, quantifiable evidence that PBA saves overhead costs or shortens the contracting and oversight processes, although some contracting experts believe that at least some savings have been achieved. It is also difficult to discern the role of PBA, by itself, in increasing contractor incentives to reduce cost. On certain types of programs with long-term production pricing agreements, the elimination of certified cost data has reduced government and contractor workloads, but on a small scale. Finally, there is little convincing evidence that the use of PBA has encouraged more civilian commercial firms to compete for DoD contracts for major military-unique items.

Lessons Learned for Implementing PBA

- **Most major PBA-like contracts for complex military-unique noncommercial items do (and should) require some contractor cost data.** Many commercial firms find it useful to examine cost data from their contractors and subcontractors to ensure that prices are appropriate and to encourage cost-saving measures. Such data collection need not be as burdensome as what CBA currently requires.
- **PBA can be useful in large, sole-source, military-unique programs, if used judiciously.** Candidates for PBA should have a high level of direct or indirect contractor competition; stable, clearly defined system performance requirements; relatively low technological risk in development and production; relatively high use of commercial components having “real” market pricing information; and adequate cost and/or price data for similar programs or products available to DoD cost and price analysts.
- **If PBA is more widely adopted, DoD cost-estimating and contracting communities will have to rely less on certified contractor cost and pricing data.** They will need to develop new methodologies (such as parametric analysis) to determine what prices are “fair and reasonable” for DoD procurements. ■

RAND RESEARCH AREAS

THE ARTS
CHILD POLICY
CIVIL JUSTICE
EDUCATION
ENERGY AND ENVIRONMENT
HEALTH AND HEALTH CARE
INTERNATIONAL AFFAIRS
NATIONAL SECURITY
POPULATION AND AGING
PUBLIC SAFETY
SCIENCE AND TECHNOLOGY
SUBSTANCE ABUSE
TERRORISM AND
HOMELAND SECURITY
TRANSPORTATION AND
INFRASTRUCTURE
WORKFORCE AND WORKPLACE

This product is part of the RAND Corporation research brief series. RAND research briefs present policy-oriented summaries of individual published, peer-reviewed documents or of a body of published work.

Corporate Headquarters
1776 Main Street
P.O. Box 2138
Santa Monica, California
90407-2138
Tel 310.393.0411
Fax 310.393.4818

© RAND 2005

This research brief describes work done for RAND Project AIR FORCE and documented in *Price-Based Acquisition: Issues and Challenges for Defense Department Procurement of Weapon Systems*, by Mark A. Lorell, John C. Graser, and Cynthia R. Cook, MG-337-AF (available at <http://www.rand.org/publications/MG/MG337/>), 2005, 200 pp., ISBN: 0-8330-3788-9. Copies of this research brief and the complete report on which it is based are available from RAND Distribution Services (phone: 310.451.7002; toll free: 877.584.8642; or email: order@rand.org). The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. **RAND**® is a registered trademark.

RAND Offices Santa Monica • Washington • Pittsburgh • New York • Doha • Berlin • Cambridge • Leiden



PROJECT AIR FORCE

THE ARTS
CHILD POLICY
CIVIL JUSTICE
EDUCATION
ENERGY AND ENVIRONMENT
HEALTH AND HEALTH CARE
INTERNATIONAL AFFAIRS
NATIONAL SECURITY
POPULATION AND AGING
PUBLIC SAFETY
SCIENCE AND TECHNOLOGY
SUBSTANCE ABUSE
TERRORISM AND
HOMELAND SECURITY
TRANSPORTATION AND
INFRASTRUCTURE
WORKFORCE AND WORKPLACE

This PDF document was made available from www.rand.org as a public service of the RAND Corporation.

This product is part of the RAND Corporation research brief series. RAND research briefs present policy-oriented summaries of individual published, peer-reviewed documents or of a body of published work.

The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world.

Support RAND

[Browse Books & Publications](#)

[Make a charitable contribution](#)

For More Information

Visit RAND at www.rand.org

Explore [RAND Project AIR FORCE](#)

View [document details](#)

Limited Electronic Distribution Rights

This document and trademark(s) contained herein are protected by law as indicated in a notice appearing later in this work. This electronic representation of RAND intellectual property is provided for non-commercial use only. Permission is required from RAND to reproduce, or reuse in another form, any of our research documents for commercial use.