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.