

Confidential and proprietary

Systems Engineering and Technical Assistance (SETA) and Analytical and Administrative support

Technical Response to Request for Proposal
dated 24 September 2010

Submitted by:
McKinsey & Company, Inc. Washington D.C.
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September 24, 2010

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This proposal is contingent on the Parties reaching mutually agreeable terms and conditions and upon acceptance of any limitations described herein.

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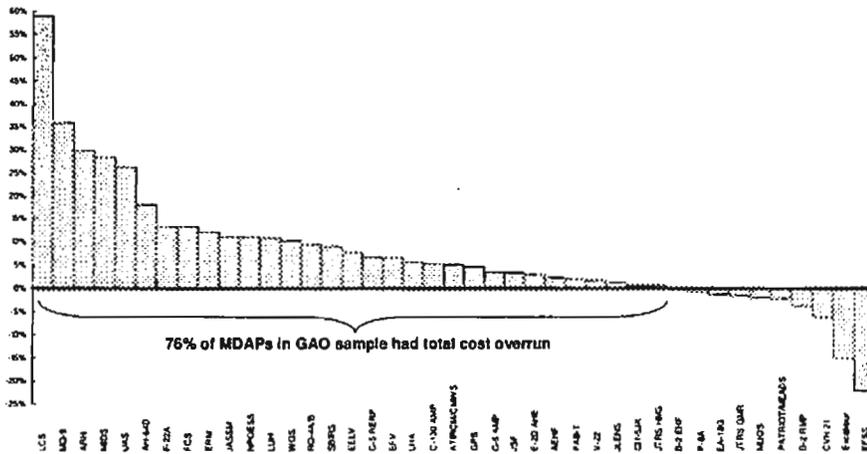
1.0 Our Understanding of Your Objectives

The Department of Defense's (DoD's) acquisition performance has been assailed outside the DoD, including in the press, as poor and deteriorating. According to the General Accountability Office (GAO), the DoD's 2007 major acquisition portfolio cost \$295 billion, 26 percent more than initial cost estimates and significantly greater than 2005's 18 percent cost overrun. Also, according to the GAO, it will take an average of 21 more months to reach Initial Operating Capability (IOC) than initially estimated, compared with 17 months more in 2005.

Unfortunately, these averages are not driven by a few large outliers. Neither are they confined to an individual service. Rather, the vast majority of major acquisition programs are over budget (Exhibit 1).

Exhibit 1
MOST MAJOR DEFENSE ACQUISITION PROGRAMS SHOW OVERRUNS IN TOTAL PROGRAM COST

Distribution of compound annual growth rate of total cost overrun compared to initial estimate*



* CAGR, rather than the change in total cost, was used because weapons profiled in the GAO report have been in development for different numbers of years. Many programs with negative CAGRs have shown large R&D cost overruns (EFSS, Excalbur, JTRS GMR), cost increases that are not captured in the data (P-8A, MLQS), schedule delays (EFSS, JTRS GMR), or quantity reductions (EA-18G, Excalbur).
 Source: Team analysis. GAO, Defense Acquisitions: Assessments of Selected Weapon Programs (2008)

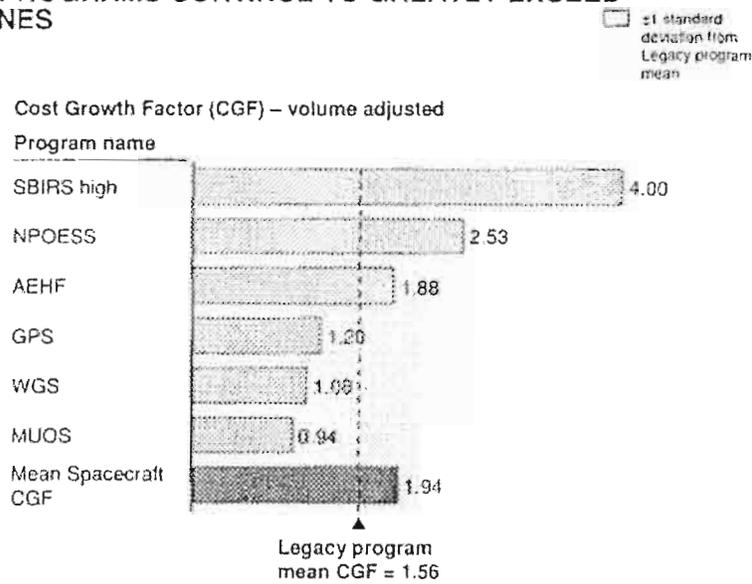
While much work has been done on acquisition reform over the past two decades – problems and issues have been cited, improvement efforts have been launched, and new legislation has been enacted – issues remain.

As recently as December 2, 2008, the DoD issued Instruction 5000.02, which provided new guidance on the operation of the Defense Acquisition System. It is clear that leaders within the DoD recognize the need for further change and are attempting to take steps to improve acquisition outcomes.

Space programs have been a particular area of concern. Under Secretary of Defense for Acquisition, Technology and Logistics, Mr. John Young, created, within his office, a Director-level position for space and intelligence capabilities to ensure “corporate-level oversight” of such systems, including satellites and launch vehicles. This position was created in large part to bring programs “under control” given the significant cost growth (as outlined in Exhibit 2).

Exhibit 2

SPACE PROGRAMS CONTINUE TO GREATLY EXCEED BASELINES



Poor acquisition program performance is likely the result of **multiple challenges and ‘root causes,’** which include (but are not limited to):

- Changes in policies and missions – development cycle time is often so long that mission needs and government priorities significantly change, making the initial requirements and technical approaches outdated
- Poor change control – changes can be introduced late in the development cycle, causing costs to increase well beyond the incremental value of the change
- Mismatch between requirements and affordability – often, and especially for space programs, we set exceptionally high performance requirements, while accepting far too optimistic cost estimation and budget assumptions

- Inadequate technology risk management – to achieve lofty system performance objectives, while maintaining “hopes” of affordability, we embed substantial technology risk that routinely leads to delays and cost growth
- Misaligned incentives – careers, both on the government and industry side, are often determined by individual performance measured during early stages of a program, thus incentivizing decisions that optimize short-term “success” over long-term results
- Ineffective scrutiny and approvals process – often people focus on process rather than outcomes, which results in continuation of many programs since the activities are being completed, even though the impact/results are not necessarily demonstrated.

Given the current fiscal environment and pressures on Defense spending over the next several years, this is an ideal time to undertake an urgently needed effort to understand and address these challenges. DoD should begin this effort with a diagnostic so that it can build a fact base to understand and quantify root causes of delays and overruns and build a case for change. Achieving this objective will allow OUSD AT&L to differentiate between program specific and systematic issues, and thereby quantify the magnitude of improvement it can achieve through fundamental change to the system.

We would welcome the opportunity to support DoD on addressing these significant challenges in its acquisition performance. We are uniquely qualified to help DoD achieve the objectives outlined in the Request for Proposal because we have:

- A distinctive track record across both the private and public sectors
 - Possess a superior track record—over a substantial length of time—of working with not only government but also the world’s leading companies to transform vision/strategy into operational and organizational transformation plans in complex environments with multiple stakeholders
 - Serve most of the Global and US Fortune 100 companies as well as over 2,000 private, government and non-profit clients
 - Ability to deploy a worldwide set of experts (both internal and external) on issues central to public and private sector leadership, with the ability to leverage both a broad and deep range of expertise for clients as the work evolves.

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2.0 Our Proposed Approach

As requested in the Statement of Work (SOW), we will support Phase 1 and Phase 1a with two work streams that will produce the deliverables outlined in the SOW. (b)(4)

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PHASE 1: DIAGNOSING SPACE AND INTELLIGENCE ACQUISITION SYSTEM PERFORMANCE

- **Objective:** To diagnose as clearly as possible the primary root causes of inefficiency and ineffectiveness in the Space and Intelligence acquisition system. The diagnostic will take the “top-down” and “broad” approach by reviewing OUSD AT&L Space and Intelligence’s performance, its governance and major processes across all programs, as well as, review up to 3 specific programs to conduct more detailed interviews and targeted data analysis
- **Key activities:**
 - Gather and synthesize key internal and external documents relevant to diagnostic output (below activities will augment existing efforts and fill gaps)
 - Gather and analyze performance data across all major programs/projects:
 - Portfolio cost, time, performance analysis (e.g., Cost: analysis on unit cost to complete, based on SAR data and internal project data; Time: average project duration by phase, and incidence of delays; Performance: achievement of key performance parameters)
 - Analysis of technical maturity at key decision points
 - Review of independent cost estimation (ICE) data, and parametric comparators
 - Requirements stability: volume and timing of engineering change orders
 - Efficiency and effectiveness of project reviews

- Map major processes and identify major bottlenecks and pain points
- Conduct key interviews at multiple levels in the organization to develop a broader organizational perspective that represents a wide range of views
- Review governance structure and processes to understand performance management, oversight, and decision making
- Review a representative sample of major space acquisition programs (not less than 3 programs)
 - Gather and analyze sample project data to conduct targeted analysis
 - Conduct key interviews at multiple levels in the organization that are close to the selected programs
- Leverage best practice examples of private sector and public sector acquisition reforms (from both U.S. and international organizations)
- Develop a framework to catalog the diagnostic findings, measure the issues' performance impact and prioritize the outcomes

Deliverables for the Phase 1 shall include:

- Assessment of identified strengths, gaps and improvement opportunities (e.g., catalog of drivers of waste based on targeted analyses and interviews)
- Perspectives on the highest priority root causes to address, supported by clear data or directional examples (e.g., process flows that highlight “pain points”). Synthesis of applicable case examples and best practices from US and international organizations
- Results from diagnostic activities including codification of interviews (sanitized), key analytical output and benchmark assessments (as appropriate)

PHASE 1A: DEEP DIVE DIAGNOSTIC INTO SPECIFIC PROGRAMS

- Objective: To “deep dive” into primary root causes of inefficiency and ineffectiveness for not less than 6 programs (as recommended for government approval prior to commencement of Phase 1a); thus proving out Phase 1 diagnostic findings in specific programs and delineating between systemic and program specific issues
- Key activities:

- Agree on the 6 major programs to review
- Gather and synthesize key internal and external documents relevant to diagnostic output for the selected programs (below activities will augment existing efforts and fill gaps)
- Gather and analyze sample project data to identify and quantify potential root cause issues and improvement impact
- Map key processes and decision points for each of the selected programs to compare and contrast
- Conduct key interviews at multiple levels in the organization that are close to the selected programs to develop a broader organizational perspective. Important issues will include an understanding of current roles and responsibilities, key processes and interfaces
- Individual perspectives regarding key issues and potential improvements
- Leverage best practice examples of private sector and public sector acquisition reforms (from both US and international organizations)
- Develop a framework to catalog the diagnostic findings, measure the issues' performance impact and prioritize the outcomes with delineation between systematic and program specific issues
- Integrate findings of Phase 1 and Phase 1a into one final diagnostic report

Deliverables for the Phase 1a shall include:

- Assessment of no less than 6 programs - notable strengths, top gaps and improvement opportunities
- Prioritized set of root causes to address with delineation between systematic and program specific issues
- Updated diagnostic results integrating Phase 1 and 1a findings

A proposed project plan for Phase 2 to include, derivation of initiatives to improve diagnosed weaknesses, development of initiative performance indicators and baselines, and a proposed pilot to assess the impact of a set of solutions on a real ongoing project (**this information must be presented as non-proprietary and with no contractor markings of any kind**)

Program Management (cross-cutting both Phase 1 and 1a)

Objective: Identify and achieve major milestones and delivery schedule

■ Key activities:

- Identity performance metrics to measure contractor performance, to include the following performance objectives:
 - Delivery of responsive high quality senior staff support
 - Including management of key personnel
 - Adherence to contract schedule, milestone, and delivery requirements
 - and efficient and effective cost control
- Communications Mechanisms:

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- Deliverables. In addition to sharing findings and recommendations verbally, we would provide paper and electronic copies of all the deliverables specified in the SOW.

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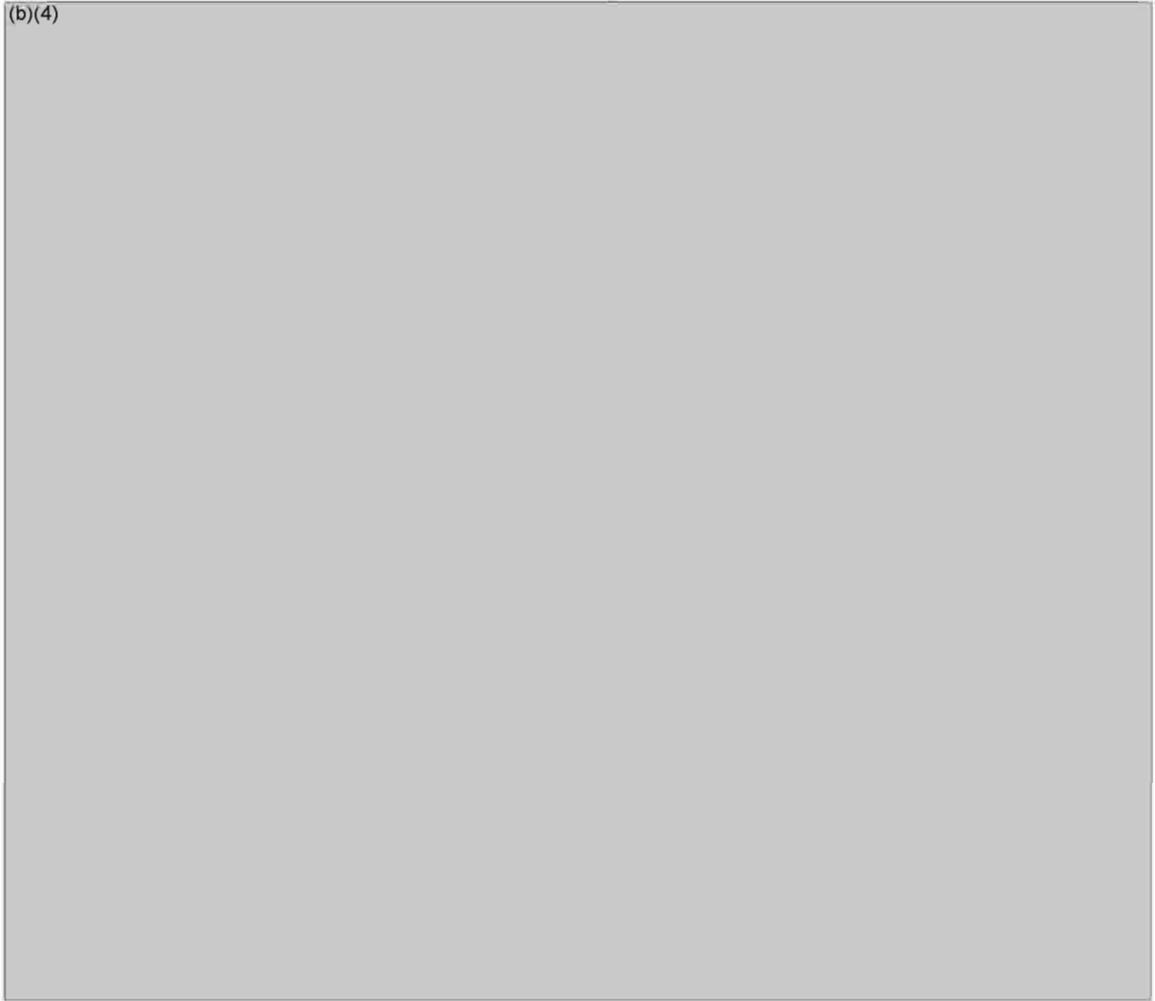
■ Deliverables

- Contract Work Plan
- Weekly Contract Status Report
- Meeting Minutes
- Monthly Review
- Program Management Plan
- Quality Assurance and Surveillance Plan

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3.0 Deliverables

The following table outlines the engagement deliverables and their due dates.

Deliverable	Due Date	Type
Phase 1:		
<ul style="list-style-type: none"> ■ Assessment of identified strengths, gaps and improvement opportunities (e.g., catalog of drivers of waste based on targeted analyses and interviews) ■ Perspectives on the highest priority root causes to address, supported by clear data or directional examples (e.g., process flows which highlight “pain points”). Synthesis of applicable case examples and best practices from US and international organizations ■ Results from diagnostic activities including codification of interviews (sanitized), key analytical output and benchmark assessments (as appropriate) 	16 weeks (after the start of the full-time team)	Formal
Phase 1a:		
<ul style="list-style-type: none"> ■ Assessment of no less than 6 programs - notable strengths, top gaps and improvement opportunities ■ Prioritized set of root causes to address with delineation between systematic and program specific issues ■ Updated diagnostic results integrating Phase 1 and 1a findings ■ A proposed project plan for Phase 2 to include, derivation of initiatives to improve diagnosed weaknesses, development of initiative performance indicators and baselines, and a proposed pilot to assess the impact of a set of solutions on a real ongoing project (this information must be presented as non-proprietary and with no contractor markings of any kind) 	28 weeks (after the start of the full-time team – expected to begin at the end of Phase 1)	Formal

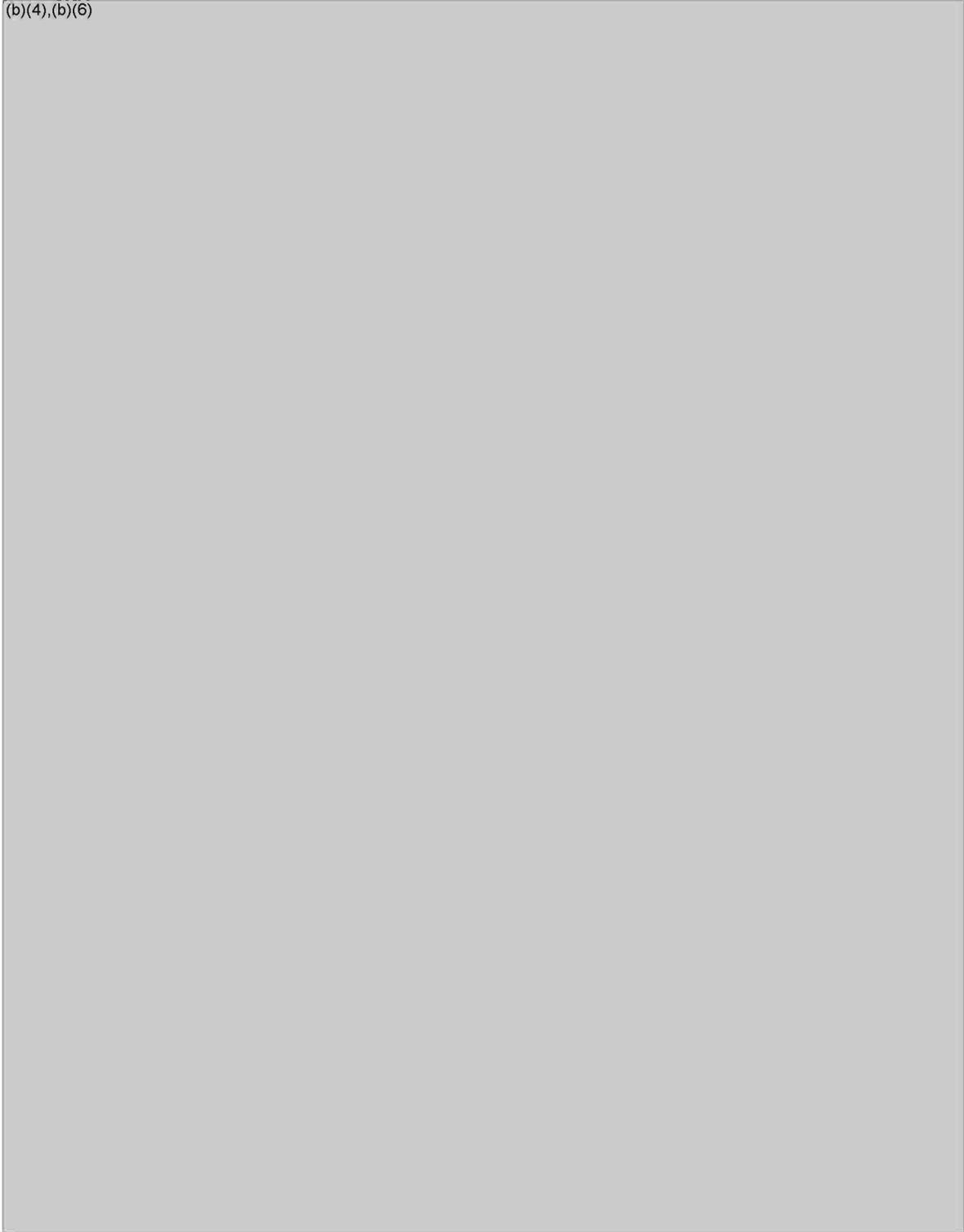
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Program Management:		
Contract Work Plan	NLT 14 days after award	
Weekly Contract Status Report	NLT the first working day of the following week	
Meeting Minutes	NLT 5 calendar days after an event	
Monthly Review	NLT the 5 th day of the following month.	
Program Management Plan	15 days after contract award	
Quality Assurance and Surveillance Plan	15 days after contract award	

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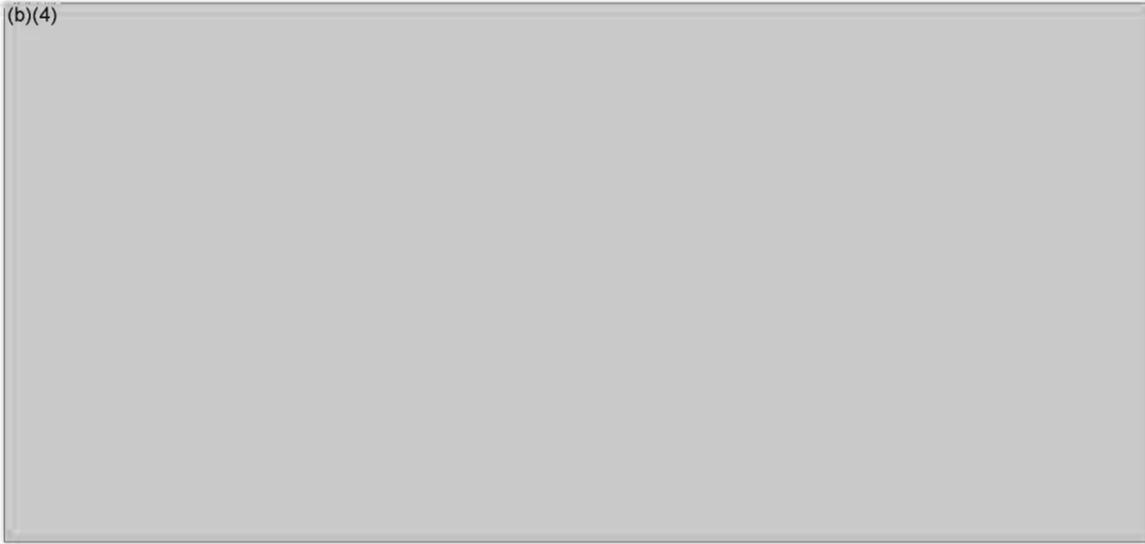
4.0 Working Arrangements

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Price Proposal for Director, Space and Intelligence Office

GSA MOBIS Schedule GS-10F-0118S
McKinsey & Company, Inc. Washington D.C.
1200 19th Street, NW, Suite 1100
Washington, DC 20036

Submitted: September 24, 2010

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McKinsey&Company

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McKinsey's Team Construction

MOBIS Team	Full-time dedicated consultant team	(b)(4)
Team A	Engagement Manager 1 Associate	
Team B	Engagement Manager 2 Associates	
Team C	Engagement Manager 3 Associates	
Team E	1 Associate	

(b)(4)



MILESTONE PAYMENT SCHEDULE

Phase	Deliverables	Payment
1	<ul style="list-style-type: none"> Draft Assessment of identified strengths, gaps and improvement opportunities (e.g., catalog of drivers of waste based on targeted analyses and interviews) 	(b)(4)
1	<ul style="list-style-type: none"> Draft Perspectives on the highest priority root causes to address, supported by clear data or directional examples (e.g., process flows which highlight "pain points"). Synthesis of applicable case examples and best practices from US and international organizations 	
1	<ul style="list-style-type: none"> Final Assessment of identified strengths, gaps and improvement opportunities (e.g., catalog of drivers of waste based on targeted analyses and interviews) Final Perspectives on the highest priority root causes to address, supported by clear data or directional examples (e.g., process flows which highlight "pain points"). Synthesis of applicable case examples and best practices from US and international organizations Final Results from diagnostic activities including codification of interviews (sanitized), key analytical output and benchmark assessments (as appropriate) 	
1a	<ul style="list-style-type: none"> Draft Assessment of no less than 6 programs - notable strengths, top gaps and improvement opportunities Draft Prioritized set of root causes to address with delineation between systematic and program specific issues 	
1a	<ul style="list-style-type: none"> Final Assessment of no less than 6 programs - notable strengths, top gaps and improvement opportunities Final Prioritized set of root causes to address with delineation between systematic and program specific issues Final Updated diagnostic results integrating Phase 1 and 1a findings Final A proposed project plan for Phase 2 to include, derivation of initiatives to improve diagnosed weaknesses, development of initiative performance indicators and baselines, and a proposed pilot to assess the impact of a set of solutions on a real ongoing project 	
Total		

(b)(4)

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MCKINSEY CORPORATE DATA

McKinsey & Company, Inc. Washington, D.C.

1200 19th Street, N.W., Suite 1100

Washington, DC 20036

Main Telephone: (202) 662-3300

Facsimile: (202) 662-3175

Email: mckinsey_gsa@mckinsey.com

DUNS: (b)(4)

TIN: (b)(4)

NAICS: (b)(4)

CCR: McKinsey maintains a current registration in CCR

ORCA: McKinsey has completed the annual representations and certifications in ORCA

POINTS OF CONTACT

Please contact our representatives below if you have any questions or need additional information regarding this Price Proposal.

For Technical Inquiries:

(b)(6)

For Contractual Inquiries:

(b)(6)

General Services Administration Federal Supply Service

Authorized Federal Supply Schedule Pricelist for McKinsey & Company, Inc. Washington, D.C.

Effective June 14, 2010

GENERAL SERVICES ADMINISTRATION INFORMATION

Online access to contract ordering information, terms and conditions, up-to-date pricing, and the option to create an electronic delivery order are available through GSA Advantage!TM, a menu-driven database system. The Internet address for GSA Advantage!TM is: <http://www.gsa.gov>

Schedule title: Mission-Oriented Business Integrated Services (MOBIS)

Special item number (SIN) offered: 874-1, Consulting Services

Contract number: GS-10F-0118S

For more information on ordering from Federal Supply Schedules, click on the FSS Schedules button at fss.gsa.gov

Contract period: January 27, 2006, to January 27, 2011

Contractor's name and contact information: McKinsey & Company, Inc., Washington, DC, 1200 19th St NW, Suite 1100, Washington, DC 20036; phone (202) 662-3300; fax (202) 662-3175

Type of contractor: large

CUSTOMER INFORMATION

1a.

SIN number offered	SIN name
874-1 (874 1RC)	Consulting services

McKinsey & Company, Inc. Washington, D.C. (McKinsey Washington) works to help clients achieve substantial, lasting improvements in their performance. To do so, we establish working relationships with senior leaders, explore their aspirations and challenges, and jointly define engagements that have the potential for lasting impact. McKinsey Washington will provide expert consulting services to customers on issues such as strategy, organization, operations, and business technology.

1b. Lowest price model number/lowest unit price

McKinsey Washington is offering four different teams to its customers under SIN 874-1. These four teams are described briefly below. The table that follows indicates the government price for each team.

1. Team A comprises an engagement manager and an associate, both of whom are devoted exclusively to the engagement. They receive ongoing support and guidance from an engagement director and other senior leaders. Engagement directors and other senior leaders typically divide their time between two to three engagements at any one time.

2. Team B includes an engagement manager and two associates, all three of whom are devoted exclusively to the engagement. They receive ongoing guidance and support from an engagement director and guidance from an engagement director and other senior leaders. Engagement directors and other senior leaders typically divide their time between two to three engagements at any one time.

3. Team C is a larger version of Team B, comprising one engagement manager and three associates, all of whom are devoted exclusively to the engagement. They receive ongoing guidance and support from an engagement director and guidance from an engagement director and other senior leaders. Engagement directors and other senior leaders typically divide their time between two to three engagements at any one time.

4. Team E is our smallest team. It provides our services to clients who do not need a full-fledged engagement team and is often used for implementation support or counseling efforts. The team comprises an associate (who is devoted exclusively to the engagement) and may include an engagement director. The team does not include an engagement manager and typically does not include additional leadership support.

Each of the five types of teams also draws upon the worldwide resources available from McKinsey affiliates, including a research and information network of 1,200 people and over 20 global functional and industry practices.

Team Type	Brief Team Description	GSA Weekly Price
Team A	EM+1	\$81,753.22
Team B	EM+2	\$100,900.30
Team C	EM+3	\$125,870.93
Team E	No EM, 1 Associate	\$33,741.06

- 1c. Hourly rates:** not applicable
- 2. Maximum order:** \$1,000,000.00
- 3. Minimum order:** \$300.00
- 4. Geographic coverage:** domestic and overseas
- 5. Point(s) of production (city, county, and state or foreign country):** not applicable
- 6. Discount from list prices:** discounts are reflected in the prices shown in 1b
- 7. Quantity discount(s):** none
- 8. Prompt payment terms:** none
- 9a. Credit card acceptance:** McKinsey Washington will accept payment by government purchase card for purchases *at or below* the micro-purchase threshold of \$2,500
- 9b. Credit card acceptance:** McKinsey Washington verifies that the Firm will not accept payment by purchase card in accordance with Clause 552.232-77, Payment by Government Commercial Purchase Card for purchases *over* the micro-purchase threshold of \$2,500
- 10. Foreign items:** none
- 11a. Time of delivery:** specified on each Task Order
- 11b. Expedited delivery:** not applicable
- 11c. Overnight and 2-day delivery:** not applicable
- 11d. Urgent requirements:** not applicable
- 12. FOB points:** destination
- 13a. Ordering address**

McKinsey & Company, Inc. Washington, DC
1200 19th St NW Suite 1100
Washington, DC 20036
Attention: Cameron Kennedy or Shannon Kelly
Telephone: 202-662-3300
Fax: 202-662-3175
Email: McKinsey_GSA@mckinsey.com
Website: www.mckinsey.com

13b. Ordering procedures: for supplies and services, the ordering procedures, information on Blanket Purchase Agreements (BPAs), and a sample BPA can be found at the GSA/FSS Schedule homepage (fss.gsa.gov/schedules)

14. Payment information:

By wire transfer payment

McKinsey & Company, Inc. – United States
Citibank N.A.
Bank Account Number: 30420698
Bank ABA Routing Number 021000089

By check

McKinsey & Company, Inc. – United States
P.O. Box 7247-7255
Philadelphia, PA 19170-7255
Federal tax ID#: 56-2405213

- 15. Warranty:** not applicable
- 16. Export packing changes:** not applicable
- 17. Terms and conditions of government purchase card acceptance (any thresholds above the micro-purchase level):** not applicable
- 18. Terms and conditions of rental, maintenance, and repair:** not applicable
- 19. Terms and conditions of installation:** not applicable
- 20a. Terms and conditions of repairs parts indicating date of parts price lists and any discounts from list prices:** not applicable
- 20b. Terms and conditions for any other services:** not applicable
- 21. List of service and distribution points:** not applicable
- 22. List of participating dealers:** not applicable

23. Preventive maintenance: not applicable

24a. Special attributes such as environmental attributes (e.g., recycled content, energy efficiency, and/or reduced pollutants): not applicable

24b. Section 508 compliance: not applicable

25. Data Universal Number (DUNS): 82-522-9318

26. Registration in Central Contractor Registration (CCR) database:
McKinsey & Company, Inc. Washington, D.C. is registered in the Central Contractor Registration (CCR) database

27. Uncompensated overtime: not used for offered services