

Applying a Business Model to Pentagon Spending

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AS SECRETARY OF DEFENSE Donald Rumsfeld undertakes his defense review to determine how to strengthen America's military, his challenge will be not just whether to spend more but how to spend smarter. Estimates for increases to meet the nation's defense needs range from \$50 billion to \$100 billion a year. Fortunately, anywhere from \$15 billion to \$30 billion can be found right inside the Pentagon.

For the last three years I have served on a non-partisan study undertaken by Business Executives for National Security the private sector channel for business leaders willing to apply their experience to national security issues. The study contrasts the best corporate practices in U.S. industry with the current bureaucratic "tail" that backs up the military fighting "tooth." Our Tail-to-Tooth Commission of CEOs, former members of Congress and defense secretaries, and retired military leaders identifies many inefficient activities the Pentagon should replace with world-class business models.

An astounding 70 percent of the \$300 billion defense budget is devoted to overhead and infrastructure. Only 30 percent directly funds combat forces. Just as we in New Jersey would never tolerate seven of every 10 police officers sitting at their desks doing paperwork rather than fighting crime, the nation should not tolerate it in the armed forces.

Rather than conduct a conventional study, our commission took a new approach. Starting where past reviews stopped, we targeted areas where widespread agreement on the need for reform already exists. We then developed detailed prescriptions for how to implement changes in basic business practices at the Department of Defense. In the spirit of "Rumsfeld's Kules" -- gleaned from your decades of service in government and industry and offered to those of us in business -- we now offer the following suggestions:

First, turn entire commercial functions over to the private sector. The defense department spends tens of billions of dollars annually providing services like family housing, long-distance communications, power utilities, and logistics. In fact, the number of military personnel devoted to the global logistics system outnumbers combat forces by 2-to-1!

The secretary of defense should make the private sector the preferred provider for all these activities. In addition, put whole agencies under the microscope and decide whether the commercial functions they provide might be performed better by the private sector. Let business step in where it performs best -- providing services faster, better, cheaper. Let the military focus on what it does best -- fighting and winning wars.

Second, overhaul the department's cumbersome acquisition system. The defense secretary faces critical decisions on whether to continue major weapons systems with billion-dollar price tags. But just as important as what he buys is how he buys it.

Consider taking a page from the Navy and Marine Corps. Instead of trying to buy, run, and maintain their own hardware and software, they outsourced their entire new Intranet operation, saving money and capturing new technology. Make incentive-based, cost-saving projects like this the rule, not the exception.

Third, modernize the archaic defense budget system so you can plan and spend smarter. The department still cannot prepare auditable financial statements or account for billions of taxpayer dollars every year. We commend Secretary of Defense Donald Rumsfeld for making financial management an element of his review. He should consider adopting the same modern accounting practices -- such as activity-based costing -- that businesses routinely use to measure and then reduce costs.

Finally, wage an all-out campaign to close unneeded military bases. The defense budget has been cut by some 40 percent since the Cold War, yet base structure is down by only 23 percent. As a former CEO, Rumsfeld knows that no company could compete with so much dead weight. Closing more bases could save another \$20 billion by 2015 and \$3 billion every year thereafter.

A new administration presents an opportunity to break the political impasse that has stymied additional closures. Work with Congress to seize this moment -- and the billions in savings that come with it. Rumsfeld's laudable effort to transform the world's largest organization will face institutional inertia and vested interests. To quote one of Rumsfeld's Rules: "Bureaucracy is a conspiracy to bring down the big. You may need to be large to compete in the world stage, but you need to find ways to avoid allowing size to mask poor performance." The size and complexity of the Defense department is no excuse for poor performance, especially when the lives of our military men and women are at stake.

The Tail-to-Tooth Commission offers specific roadmaps for instituting proven business practices that will unlock \$15 billion to \$30 billion in annual savings -- billions that could give our forces the tools and quality of life they deserve.

Our world-class military deserves a world-class support system. As Rumsfeld's review recognizes, the time for radical reform is now. To borrow a slogan from the world of business: "Just Do It."

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