

CASE STUDY WRITE UP OF VISIT TO NETHERLANDS DEFENCE MATERIEL ORGANISATION, 2 NOV 05

Background to the Defence Materiel Organisation

The Defence Materiel Organisation is in the middle of a major reorganisation. The reorganisation will be completed from 2007. Previously there were separate procurement teams for each of the services (land, sea and air). There were also separate teams for procurement and logistic support. The re-organisation will merge these different teams.

The basic procurement process (known as the Defence Materiel Process - DMP) goes through five phases:

Phase A	Requirement definition: <ul style="list-style-type: none">• Determination of required capabilities• Operational concept• Qualitative and quantitative requirements• Financial estimates• International cooperation
Phase B	Pre-feasibility study: Aim - to make the first selection of possible alternative products on the basis of an approved statement of requirement and market survey. This includes: <ul style="list-style-type: none">• Requests for Information (from potential bidders)• Market research of possible product alternatives• Development of prototypes• Potential industrial possibilities• Financial estimates
Phase C	Feasibility study: Aim - to articulate further details of the general requirements formulated in the Pre-feasibility study and the measures to be taken and the consequences related to satisfying the requirement.

	<p>This includes:</p> <ul style="list-style-type: none"> • Requests for Quotation (from potential bidders) • Further specification of product requirements • Composition of a shortlist • Price
Phase D	<p>Acquisition preparations:</p> <p>Aim - to establish which asset is being procured to satisfy a requirement</p> <p>This includes:</p> <ul style="list-style-type: none"> • Requests for Proposal (from potential bidders) • Definite product choice • Contract (including total cost)
Phase E	<p>Evaluation:</p> <p>Aim - to compare the course of process and the results of the policy implementation with the previous proposals in respect of lessons learned and incentives for improvements</p> <p>Done when projects cost >€250 million or in special circumstances</p>

The Defence Materiel Process applies to all projects over €5 million.

The Defence Materiel Organisation runs IPTs, but not joint IPTs with industry involvement. Operational requirements are raised by the Chief of Defence staff, from which the Defence Materiel Organisation produces the contractual specification (similar to the UK User Requirement Document).

Review process

All major projects (i.e. >€100 million) must go to the Minister and Parliament for approval at each of the five phases. All proposed contracts are reviewed by a contract review board, which examines the contract in detail and broadly assesses the thoroughness of the down-selection process, but not the decision itself. Major contracts (>€250 million) are reviewed by the Central Contract Committee (a Government committee).

Contracting approach

Negotiation

Once down-selection has been made, there is no further negotiation. Contracts are negotiated with all possible contenders.

Competition

Competition is standard practice in Dutch defence procurement and all contracts are placed in accordance with Dutch law.

If competition is restricted (i.e. with only two contenders) there is the ability to invoke a Pricing and Forecasting Group-like price investigation (for contracts over €500,000). You can therefore have both competition and price investigation. When buying specialist equipment, the Defence Materiel Organisation sometimes hire in specialist outside help for price/quality investigations.

Changes

Contracts include the provision to change - by Engineering Change Proposal. This results in a contract amendment and, normally, an adjustment to the agreed price.

Legal requirements may affect the contractual structure and content e.g. contractual penalties are legal in Dutch law and may therefore be included in defence contracts.

Risk management

Regarding Risk Management, all risks need to be identified. Generally, the Defence Materiel Organisation prefers to transfer risk to the contractor.

Skills and experience of commercial staff

The individual's education (qualifications/courses attended etc) dictates their delegated authorities. The Defence Materiel Organisation runs specialist courses, including Foreign Military Sales. There is no requirement for staff rotation.

Contracting for availability

The Defence Materiel Organisation does not use contracting for availability. Instead, it uses conventional support but price capped (any requirements that arise over the specified maximum are the contractor's liability. Support contracts tend to be long duration (10 to 15 years).

Pricing, incentives and penalties

Most pricing is Firm or Fixed (with some Max). Contracts usually don't include specific incentives (such as a Target Cost Incentive Fee arrangement). The Defence Materiel Organisation considers the "incentive" to operate in terms of completing the project within the performance, cost and time targets. If these targets are not met, penalties

will be charged as a matter of routine. Penalties and Express Warranties are common and are used in addition to Common Law rights.

Other points

In terms of contracting activities, the following apply:-

- a. All contractual requirements must be reasonable.
- b. The Defence Materiel Organisation does not pay bidders' costs.
- c. The Defence Materiel Organisation often buys prototypes with maximum priced options for full manufacture.
- d. US purchases are split between Foreign Military Sales and Direct Commercial Sales based on internal guidelines (and what the US Government will allow).
- e. Contracts contain a mix of standard conditions (like UK DEFCONs) and specialist conditions (like UK narrative conditions).
- f. A draft contract is sent out with the Request for Proposals.
- g. Advance payments are not uncommon. These are real advances (i.e. in advance of contractor's spend), but made only in accordance with a specified agreed spend profile.

Infantry Fighting Vehicle IPT

The Infantry Fighting Vehicle (picture below) came out of a requirement to replace a specific vehicle. It was decided that the replacement should be not one, but three vehicles - Fennec, Boxer (MRAV) and the Infantry Fighting Vehicle. The operational requirement came from the Chief of Defence staff and the IPT began turning it into a realistic and viable Mission Need Document (in terms of performance, cost and time).

At the end of 2001, a pre-study report was issued, including a paper study, requirements for assessment/proving trials and a technical assessment. This was followed by a study phase which produced a technical specification. This phase is usually a de-risking and validation of draft technical specifications. In this case it produced a very mature recommendation. Requests for Proposal (equivalent to Invitations to Tender) were sent to three contenders in January 2004, with tenders returned in April 2004. The contract was placed in December 2004.



The programme plan was discussed with industry in advance. Tender assessment criteria were not declared to bidders (other than general performance, time and cost requirements).

The programme was tight but was achieved - resulting from what was considered to be a good contract. The contract contains a few milestone payments (majority of payment on delivery), linked to technical achievement. There are penalties in the event of late delivery (Government norm is about 10 per cent of total contract value).

There are good working relationships between the IPT and industry. There is no code of conduct, nor anything written in the contract in relation to behaviours. Certain management plans do set out certain ways of working but these do not cover behavioural aspects.

It is standard practice to ask for intellectual property user rights.