Logistics Transformation

Without a Transformation in Logistics … there will be no Army Transformation

Advanced Planning Briefing for Industry
1 November 2002

Logistics Transformation Task Force
The Army Vision is clear: An Army that is.....

• More **Responsive**
• More **Deployable**
• More **Agile**
• More **Versatile**
• More **Lethal**
• More **Survivable**
• More **Sustainable**

The Army Vision defines the Logistics Transformation Vision:

Ensure Army forces are capable of rapidly deploying in support of current and future operational force deployment goals; effectively sustain the full spectrum of Army operations, while synchronizing Army and Joint efforts to:

• Enhance Strategic Responsiveness – meet deployment timelines
• Reduce CS/CSS footprint in the combat zone
• Reduce the cost of generating and sustaining forces without reducing warfighting capability and readiness
Top 5 Priorities Next 12 Months
Logistics Transformation Requires THE ARMY

- Demonstrate that we value reliability, maintainability, sustainability (RMS) in our decision making process
- Force Structure, worldwide positioning and people
  - TAA 11: excursions - apply now; process review – begin immediately
- Embrace deep culture change driven by SRS/balanced score card metrics to drive continuous improvement
- Shift to cost conscious/cost reduction culture (helps finance continuous improvement)
- Total system approach to Logistics Transformation

PPA + (TLM)$^2$OSC+$F_R$+$L_A$=(-FP)(-$\$$(+C)(+D)

(Power Projection Architecture) + (Total Lifecycle Mgt) (Two Level Maint)(Optimizing Supply Chain) + (Financial Reform) + (Logistics Automation) =

(Reduced Footprint) (Reduced $\$$(Increased Capability) (Increased Deployability)
## Changing the Culture

**Sustainment culture** is a combination of support\textsuperscript{ED} organization’s expectations and the support\textsuperscript{ING} organization’s view on how to best meet them…

<table>
<thead>
<tr>
<th>Current Sustainment Culture</th>
<th>Objective Sustainment Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>\textbf{Failure focused} – manages minimum readiness rates and Mean Time Between Failure; \textit{report averages}}</td>
<td>\textbf{Continuous improvement &amp; performance focused} – maximize readiness</td>
</tr>
<tr>
<td>“\textbf{It costs what it costs}” and it is too expensive to make it cost less; spend to budget</td>
<td>\textbf{Cost reduction mentality}; not budget execution</td>
</tr>
<tr>
<td>“\textbf{Ownership}” of piles – bigger pile is better</td>
<td>\textbf{Confidence} through visibility &amp; performance; pile size &amp; ownership are irrelevant</td>
</tr>
<tr>
<td>“\textbf{Just in case, plus some}” – inventory is protection; more is better</td>
<td>Just enough &amp; the ability to get more fast; stock forward for probables not all possibles</td>
</tr>
<tr>
<td>Manage the seams</td>
<td>\textbf{No seams} – one enterprise</td>
</tr>
<tr>
<td>\textbf{Logistics is a set of functions} and branches (TC, OD, QM, AVN, Med….))</td>
<td>\textbf{Logistics is a process} to deliver products and services; distribution, repair, inventory management, production, healthcare</td>
</tr>
</tbody>
</table>
What Drives Sustainment Resources

- Organization and Force Structure, Planning Factors
- Tactical Log Operations
- Enabling Technology
- Logistics Automation
- Financial Reform

- Cost, Quality and Reliability Focus
- Life Cycle Management
- End to End Distribution
- Supply Chain Management
- Power Projection Architecture

Reduce Demand

Improve Reliability
The AS IS Sustainment Environment
We’ve Come a Long Way But.....

- Reduced sales transactions w/ SSF MS 1/2
- Established RECAP and NMP programs
- Began process to eliminate DS +

- Obtained dedicated trucks from DLA to major installations
- Army partnered with DLA to pioneer the scheduled DoD distribution network being built today, providing fast, cheap, and reliable distribution performance

- Reduced CSS in Force XXI/LCD
- On hand AMI wholesale inventory reduced from $14 billion to $7.7 billion ($8.7 with SSF capitalized stocks)
- Improved inventory velocity and asset visibility with SSF MS ½ - preparing to implement MS 3
- CONUS average distribution performance improved from 22 to 9 days (60% lower) from 1995 to 2001 OCONUS average air distribution performance improved from 25 to 11 days (55% lower)

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The AS IS Sustainment Environment
We’ve Come a Long Way But To Meet The Demands of the Objective Force Environment We Have To Evolve

- Financial Policies that encourage sub-optimum system performance and turbulence
- Lack of visibility - factory to foxhole
- Lack of synchronization b/w National and local repair
- OPTEMPO cost and sustainment structure growth driven by lack of understanding in early systems design

Sense and Respond Logistics

- A sub-optimized Industrial base that is therefore expensive
- High backorders/low parts availability/high unserviceables
- DLA and Army distribution networks not fully synch’d
- Mal Positioned Army Inventory
- Haphazard reverse pipeline distribution
Optimizing Sustainment: A PROCESS Orientation Yielding Better Readiness, Lower Cost and Reduced Footprint

Financial Integration... Across the Enterprise

- Improved transfer pricing policies
- Stable funding
- Optimized Sustainment: A PROCESS Yielding Better Readiness, Lower Cost and Reduced Footprint

Total Life Cycle Management to Reduce Sustainment Costs

- Encourage corporate solutions
- Align decision making incentives across the Enterprise
- Enable stable system operation
- RMS valued throughout The Army
- Distribution management from national to field level
- Maximize the value of forward stockage points
- Total lifecycle management and two level maintenance in place

Sense and Respond Logistics

- Developing a responsive and flexible national sustainment base
- Collaborative parts planning
- Short term forecasts
- Pull production
- Stock positioned at scheduled nodes
- Reverse distribution network
- Improved transfer pricing policies
- Rule-based multi-ech practices
- Multi-echelon model with LMP

Gain visibility to enable integrated management – you can’t “optimize” the whole if you can’t see it all

Optimize the Enterprise as a Total System – Not Individual Processes

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- Optimize the Enterprise as a Total System – Not Individual Processes
What Does Increased Workload from Public-Private Partnership Mean to the Ground Systems Industrial Enterprise?

Overhead Burden: Fixed Costs and Surcharge

Current Rate = LABOR + \( \frac{OH}{CI} \) = $100

With Additional Workload

Available Capacity (AC)

New Rate = LABOR + \( \frac{OH}{CI + AC} \) = $90

Capacity Index (CI)

More Competitive Rate = More Work = Even Lower Rate

NOW!

Capacity Index (CI)
## SUMMARY OF SALES / UTILIZATION

<table>
<thead>
<tr>
<th>STATUTE</th>
<th>SALE OF</th>
<th>SALE TO</th>
<th>FOR</th>
<th>RESTRICTIONS</th>
<th>FINANCIAL</th>
<th>APPROVAL LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 USC 4532 (The Arsenal Act)</td>
<td>“supplies” (articles or services)</td>
<td>other Army activities</td>
<td>Army use (but can be partial and items supplied as GFE to contractor)</td>
<td>must establish &quot;economical basis&quot;; make-or-buy decision on out-of-pocket, but pay full cost</td>
<td>reimburse-ment, by project order</td>
<td>CDR of facility (by reg)</td>
</tr>
<tr>
<td>10 USC 2208 (h)</td>
<td>AWCF inventory</td>
<td>contractors</td>
<td>use in performing DOD contracts</td>
<td></td>
<td>reimburse fund</td>
<td>PCO (?)</td>
</tr>
<tr>
<td>10 USC 2208(j)</td>
<td>manufactured or re-mfd goods or services as subcontractor</td>
<td>contractors</td>
<td>fulfilling DOD contract or subcontract</td>
<td>solicitation for contract / subcontract must be open to public/private competition</td>
<td></td>
<td>HCA (delegation)</td>
</tr>
<tr>
<td>10 USC 4543 (mfr of large cal cannon, gun mounts, recoil mech., munitions or components)</td>
<td>manufactured items / related services</td>
<td>U.S. company</td>
<td>DOD, USG, friendly foreign government, or commercial</td>
<td>items/services not commercially available; buyer indemnifies US</td>
<td>Incremental payments; <strong>may</strong> be FFP / variable costs if commercial item; develop working capital</td>
<td>CDR of MSC responsible for facility (by statute)</td>
</tr>
<tr>
<td>10 USC 2563 (NOT mfr of cannon, mounts, recoil mech., munitions/compnents; DOD may designate)</td>
<td>articles and services</td>
<td>person outside DOD</td>
<td>not specified, but subject to Arms Export Control Act</td>
<td>items/services not commercially available; buyer indemnifies US, but gross negligence/willful misconduct / Govt noncompliance excluded</td>
<td>Incremental payments; FFP; variable costs + deprec. +capital improvement + develop working capital</td>
<td>DA level (delegation)</td>
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<tr>
<td>22 USC 2770</td>
<td>defense articles and services</td>
<td>U.S. company</td>
<td>incorporation into end items for friendly foreign country</td>
<td>items/services not commercially available; buyer indemnifies US export license/possible end-user certificate</td>
<td>adv. payment of estimated costs; full cost</td>
<td>HCA (delegation)</td>
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<tr>
<td>10 USC 2539b</td>
<td>samples, drwgs, equipment / mtls, lab / test facilities</td>
<td>person or entity</td>
<td>independent research &amp; development or use in demonstrations to friendly foreign govts</td>
<td>equipment / materials must be used exclusively for research and development</td>
<td>recoup direct and indirect costs</td>
<td>PARC</td>
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<td>instn cdr</td>
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<tr>
<td>10 USC 2358</td>
<td>services, use of employees or facilities</td>
<td>private sector or other federal agencies</td>
<td>participation in R &amp; D projects relating to weapon systems or other military needs</td>
<td>can’t duplicate research under other DoD programs; Army funds can’t exceed outside funding</td>
<td>funds to Army</td>
<td>COC-Wrn or Pictny; &gt;$5 m /yr or $25m total DA level (del)</td>
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<tr>
<td>(cooperative agreements or grants)</td>
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<tr>
<td>10 USC 2371</td>
<td>services, use of employees or facilities</td>
<td>participation in R &amp; D projects</td>
<td>can’t duplicate research under other DoD programs; Army funds can’t exceed outside funding; use when standard contract or cooperative agreement not appropriate</td>
<td>reimburse-ment goes to special Treasury account</td>
<td></td>
<td>COC-Wrn or Pictny; &gt;$5 m /yr or $25m total DA level (delegation)</td>
</tr>
<tr>
<td>“other transactions”</td>
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<tr>
<td>10 USC 2474</td>
<td>services related to depot-level activity core competencies, or use of facilities or equipment</td>
<td>private industry</td>
<td>public-private partnership to increase use/decrease costs, or encourage creation and preservation of jobs to maintain skills</td>
<td>must have no adverse effect on readiness; private industry must indemnify US</td>
<td>reimburse direct &amp; indirect costs to fund that incurred; can use revenues for facility operation, maintenance &amp; env. restoration</td>
<td>MSC CG (? )</td>
</tr>
<tr>
<td>(Centers of Industrial Technical Excellence)</td>
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<tr>
<td>15 USC 3710a</td>
<td>R &amp; D work by federal “lab”, or use of lab’s equipment and facilities</td>
<td>non-federal entity</td>
<td>enhancing technological knowledge of lab and private sector for mutual benefit; transferring technology</td>
<td>R &amp; D must be consistent with lab’s purpose, not unduly compete with services in private sector</td>
<td>reimburse direct &amp; indirect costs to fund that incurred</td>
<td>Director of federal laboratory (by statute)</td>
</tr>
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<td>(Cooperative Research and Development Agreements)</td>
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The Logistics Transformation Task Force Final Report can be accessed on the Army Knowledge Online (AKO) website using the following path:

AKO - [https://www.us.army.mil/](https://www.us.army.mil/)

**Collaboration Center**
- Army Communities
  - Logistics
    - Log Transformation TF
      - LTTF

The LTTF Final Report and the Appendix are found here.