Customer Pay
A Government / Industry Partnership

Presented to the
NDIA/DSCC Land & Maritime Symposium
By
Ed Peters
President AM General Defense
HMMWV

Products

HUMMER H1

HUMMER H2

6.5 Liter
Business Units

HUMMER®/HUMVEE®

SPLO

GEP

STS

H2
Best Business Practices

• Collaborative Relationships
  – Strategic Suppliers Alliance
  – Corporate Contract
  – Long Term Contracts
  – Communications & Partnering

• E Business
  – Vendor Initiated Parts Re-supply
  – Direct Vendor Deliveries

• Alpha Contracting

• Lean Initiatives
  – Inventory Reduction
  – Reduced Lead times

• Performance Based Agreements

• Third Party Logistics
“Customer Pay” & HMMWV RECAP

- What is Customer Pay
- Negotiations / Contract Phase
- Implementation / Operational Phase
- Lessons Learned
Customer Pay
OSD Guidance

• Mr. Wynne, Then - Under Secretary of Defense for Acquisition, Technology & Logistics
• Initial Guidance – Jan 04
• Goals:
  – Drive supply chain responsibility to vendor
  – DOD pays for materials when delivered to the end user
The Pilot Program

- Customer Pay Concept
- Performance Based Agreement
- Use E-Commerce
  - Web Portal
- Support a Major Program
  - HMMWV RECAP
  - Two Depots Letterkenny & Red River
The Concept

• Establish a Performance Based Agreement (PBA) between TACOM, DLA & AMG in Support of Depot RECAP.
• Shift Materiel Management Responsibilities to AMG for: LEAD, RRAD & MMA.
• Move Point of Sale to Point of Use.
• Alpha Contract DLA & AMG.
• Information Sharing Via Web Portal
Depot Recap

Letterkenny

LEAD
(Sale)

AMG LOC

Data

Part

AMG
SPLO

AMG Vendors

Government Owned/AMG Managed

DLA/TACOM

Red River

RRAD
(Sale)

AMG LOC

Data

Part

AMG Owned

DOF = Depot Overhaul Factor

Customer Pay Web Portal
-Asset Visibility
-Consumption
-Req. Status
-Production Schedule
-DOF Lists
-Matl' Location

Data

Letterkenny

AMG

AMG Owned

Govt Owned/AMG Managed

Red River

AMG

AMG Owned

Govt Owned/AMG Managed

Data
# Supply Status Report for LEAD and RRAD

**Click here to download (tab delimited format)**

**Stock Data is historical data provided by AMG; workstation, kitting and bin configurations are provided by each depot.**

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Material Management

- 1,120 Parts
  - Sourced to Team Member
- Use Multiple Sources as Backup
- AM General Manages and Accounts for all Material
Performance Base

• Forecast Parts Requirements
  – Predictable & Non Predictable
• Deliver Parts Directly to Assembly Line
• No Stock Outs, 100% Stock Availability
• No “G” Coded Vehicles
• Point of Use = Point of Sale
• Cheaper Than Current Process
  – What is the Baseline?
• Small Business Goals
Outside of the Box

- Teaming With Government Agency (Collaborative Partnering)
- Alpha Negotiation
- Web Portal
  - Systems Integration
  - Asset Visibility
- Managing Commercial and Government Supply Chains
- Receive, Store, Account for Government & Commercial Owned Material Within the Same Facility
- New Billing Process – Point of Use = Point of Sale
- Deliver Parts Directly to Production Line
- Compressed Time Frame
Risk Assessment

- Management of Government Owned Material
- Cash Flow Constraints.
  - Huge Additional Inventory Investment.
- AMG Does Not Increase Market Share.
- Operate Two Remote Locations. (HR, IT, Facilities, 3rd PL).
- Systems Integration
  - Web Portal
  - Complexity of Managing GFM
- New Contracting Instrument, Performance Based Logistics, PBA.
- AMG Does Not Control the Entire Supply Chain or the Assembly Line Operation.
- AMG is focal point if program fails.
  - 100% stock availability
    - Predictable & Unpredictable Parts Demands
  - Lower Costs
Executive Assessment

• AM General is Responsible for Insuring 100% Stock Availability

• Four Key Elements to a Successful Program
  – Responsiveness of DLA’s Supply Chain
  – Responsiveness of TACOM’s Web Portal & Supply Chain
  – Accuracy of the Depot’s Schedule and Forecasting Data
  – AM General's Supply Chain Management Skills

• AM General only Controls One of These Elements
CEO’s Guidance

• Build a Business Case
• Optimum Situation AMG Source All Parts
  – No Dependence on Other Sources
• AM General Does Not Take Title of TACOM and DLA Material
• Clarify the Concept for Handling Government Inventory
• Clearly Define AMG and DLA Responsibilities
• Continue Discussions to Build the Business Case
Key Negotiating Points

• Delivery & Acceptance
  – When Title Transfers to the Government

• Forecasting Responsibilities
  – Not Held Responsible for Elements Beyond Control
  – Start Up Data and Running Changes to Build Schedule

• Buyback Clause
  – Government Caused Excess Inventory, Responsibilities & Limitations

• Start Date - 15 Weeks from Date of Signing Contract

• Clearly Defined and Articulated Responsibilities

• Performance Metrics
  – Need to Develop or Qualify Baselines and Metrics.

• Incentives
  – Ensure a Minimum or Base Profit
Partnering
Why It Worked

• Open Communications
  – Trust
    • DLA
      – Strategic Supplier Alliance
      – Line of Balance
      – Corporate Contract
    • TACOM
      – VIPR
      – Top 20
  – Accurate Information
  – Answering Requests in a Timely Manner

• Common Goals
Challenges

• 53 Work Days
  – Build Customer Pay Team
  – Integrate Systems TACOM, DLA, AMG
  – Find and Lease
    • Two Warehouses in two remote locations
    • Equipment
  – Develop Processes and Procedures
  – Hire and Train Workforce
  – Source, Schedule and Receive Parts
  – Deliver Parts to the Assembly Line
Implementation Phase – 53

• Build Customer Pay Team
• 3rd Party
  – Set up LOCs
  – Hire & Train Touch Labor

• Holiday Season
  – Not all external players understood the urgency of the program
  – LOC receiving parts up to 2AM on kickoff day 17 Jan 06

• Complexity of Systems Integration
  – Time did not allow for all processes to be developed, debugged
    and tested before implementation
  – no reject codes, could not identify why data was rejecting

• Rescheduled Launch by Two Weeks
Implementation Challenges!

- Technical Data Issues
  - 130 instances - AMG part numbers did not cross to Government required NSN’s
  - 109 instances - AMG unit of issue did not match NSN’s
- Parts Could Come From Any Source AMG, DLA, TACOM, Depots – “just keep the line running”
- Accuracy of Initial Forecast Data
- Early in the Program the Depots Exceeded Forecasted Production Rates
- New SAP Procedures / Three Weeks to Train AMG and Subcontractors
Mission Accomplished

• Drive Supply Chain Responsibility to Vendor
  – AM General Managing Complex Supply Chain

• DOD Pays for Materials When Delivered to the End User
  – HMMWV RECAP Program
    » Point of Use = Point of Sale
Successes

• CP Production – Feb. - July
  – RRAD 1960 Vehicles
  – LEAD 1880 Vehicles
  – MMA 75 Vehicles

• No Stock-outs
  – 111 Production Days at LEAD
  – 75 Production Days at RRAD

• Significant Inventory Reduction

• Systems Integration
75 Days No Stock Out RRAD

RRAD C/P RECAP
PART SHORT REPORT

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111 Days No Stock Outs - LEAD

### LEAD CP/RECAP

#### PART SHORTAGE REPORT

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- **TWO+** represents cases with two or more stockouts.
- **ONE** represents cases with one stockout.
- **NONE** represents cases with no stockouts.

The chart shows the percentage of parts that had no stockouts from January to December.
Successes

- Maine Military Authority – Stock to Dock
  - 25 Truck a Month
- Just in Time Delivery
  - SAP Forecasting Data
  - Kanban type delivery
  - Continuously reducing stock levels
- 4,00,00,000 Parts Delivered
Lessons learned

• Overly Optimistic Launch Schedule
• Program Implementers Should Take Part in the Negotiations
  – Bring Ops People Together Early
  – Understand / Adapt to Changes and Fluid Production Schedules
• Don’t Under Estimate Systems Integration
  – Technical Data
The Team

• TACOM
• DCSS
  – DLA Supply Depots
• Letterkenny Army Depot
• Red River Army Depot
• Maine Military Authority
• Am General
  – WW Williams
WHY

• Our truck, Our name, Our reputation.
• Customer Support
  – Our 2 Primary Customers Asked Us to Get Involved.