WARFIGHTER FOCUSED, GLOBALLY RESPONSIVE SUPPLY CHAIN LEADERSHIP

DEFENSE LOGISTICS AGENCY
AMERICA’S COMBAT LOGISTICS SUPPORT AGENCY

WARFIGHTER SUPPORT ENHANCEMENT                   STEWARDSHIP EXCELLENCE                       WORKFORCE DEVELOPMENT

DLA Land and Maritime
2012 NDIA
Industry Conference and Exhibition

Material Cost Reduction
Break-Out Session

June 11 – 13 2012
Agenda

• Introduction of Panel Members
• Austere Budget Environment
• How do we define savings?
• Strategies to Achieve Material Savings
• Initiatives
• Points of Contact
• Questions & Answers
Panel Members

- **Steve Rodocker**
  - Director of the Strategic Acquisition Procurement Directorate
    - Sole Source Supplier Cost Control
    - Maximizing use of Long Term Contracts
    - Maximizing use of Quantity Price Breaks
    - Leveraging Commercial Capabilities

- **Ken Goodson**
  - Competition Advocate and Acting Deputy Director of the Procurement Process Directorate
    - Maximizing use of Reverse Auctions
    - Expanding use of Automated procurements
    - Implementing Pricing Training and Workshops
Panel Members

• Renee Magill
  • Chief of the Value Engineering Office
    • Reverse Engineering
    • Spare Parts Breakout
    • Value Engineering Change Proposals

• Eugene Mitchell
  • Chief of the Strategic Sourcing Specialists
    • Providing Government Furnished Material
    • Conducting Industry/Commodity Market Analysis

• Heath Berkshire
  • Program Manager for the Material Cost Reduction Campaign
Austere Budget Environment

• DLA Land & Maritime will be operating on a **smaller budget** for the foreseeable future.

• With a smaller budget, DLA Land and Maritime must **reduce material costs** in order to **provide sustained superior support** to the Warfighter.

• **Engagement with industry partners** is essential to developing innovative and strategic relationships to drive down acquisition costs.
How do we define savings?

• Savings are calculated as follows:

\[
\text{Savings} = \text{Historical Price Paid} - \text{Current Price Paid}
\]
# Strategies to Achieve Material Savings

<table>
<thead>
<tr>
<th>Leverage Commercial Capabilities</th>
<th>Leverage Economies of Scale</th>
<th>Sole Source Supplier Cost Control</th>
<th>Enhance Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>★ Use Commercial Price Lists</td>
<td>★ Long Term Contracting (LTC)</td>
<td>★ Strategic Supplier relationships</td>
<td>★ Reverse Auctions</td>
</tr>
<tr>
<td>★ Customer Direct LTCs for Commercial-Off-The Shelf (COTS) items</td>
<td>★ Quantity Price Breaks</td>
<td>★ Overhead Cost Analysis</td>
<td>★ Reverse Engineering</td>
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<tr>
<td>★ Cost effective methodology of supporting Non-NSN items</td>
<td>★</td>
<td>★ Forward Price Rate Agreements/Recommendations</td>
<td>★ Source Approval Request (SAR) processing</td>
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<td>★ Automation</td>
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Enhancing Competition

**Lever**
- Reverse Engineering (RE)
- Sustaining Engineering (SE)
- Sole Source Break Out Project (BO)
- Other Value Management Techniques - VECP* (FAR 52.248-1), RPPOB* (DoDI 4140.57)
- Source Approval Request (SAR)

**Current Status**
- RE - 9 projects w/$882K savings expected FY13
- Military Service partnerships – Future RE/SE Projects being identified to support expected growth.
- BO – Partner w/ESAs to quickly identify Sole Source NIINs w/technical data.

**Strategy / Future Actions**
- Grow RE (25%) and SE (20%)
- BO – Review 2800 NIINs/year
- Expand RE capability

**Expected Outcome**
- Increase Competition
- Reduce material costs
- Increase SAR acceptance rate

Acronyms:
*VECP – Value Engineering Change Proposals
*RPPOB – Repairs Parts Purchase Or Borrow
## Conducting Industry/Commodity Market Analysis

<table>
<thead>
<tr>
<th>Lever</th>
<th>Current Status</th>
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<tbody>
<tr>
<td>• Develop Sourcing and Acquisition Strategies</td>
<td>• Select an FSC to be used as a Pilot Project</td>
</tr>
<tr>
<td>• Use of current manufacturing techniques and technologies</td>
<td>• Create a Pilot Project Working Group (DLA Land/Maritime and R&amp;D)</td>
</tr>
<tr>
<td>• <strong>Creation of viable /attractive solicitations with industry input</strong></td>
<td>• Develop Statement of Work (SOW) and Charter</td>
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<td>• Meet with Industry Associations to receive input on solicitation creation</td>
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</tbody>
</table>

<table>
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<tr>
<th>Strategy / Future Actions</th>
<th>Expected Outcome</th>
</tr>
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<tr>
<td>• Achieve buy-in from Industry and management</td>
<td>• <strong>Increased market intelligence and reliability</strong></td>
</tr>
<tr>
<td>• Develop expertise in market analysis and research</td>
<td>• Increased success in LTC solicitation grouping process</td>
</tr>
</tbody>
</table>
## Maximizing use of Long Term Contracts

### Lever
- Long Term Contracting

### Current Status
- 13 Commodity Group Projects awarded or have projected award dates in FY 13
- Ongoing process improvement efforts to **enhance the utilization of awarded LTCs**
- 8 major MRAP projects with projected award dates in FY 13

### Strategy / Future Actions
- Increased utilization of LTCs
  - Commodity Group Projects (CGP)
  - MRAP Support Contracts
  - Other LTCs

### Expected Outcome
- Reduction of PRs on the floor
- Inventory reduction
- Significant reductions in ALT and targeted 10% reduction in PLTs
- Material costs savings
- Cost avoidance through improved processes
**Sole Source Supplier Cost Control**

**Lever**

- Sole Source Supplier Cost Control

**Current Status**

- For Period Oct 2011– Apr 2012 OEM Savings at 3% ($4.32 Mil) based on $137.4 Spend
- Developed Material Cost Reduction Plan with Strategic Supplier Alliances

**Strategy / Future Actions**

- Loss of business for end items creating challenges for OEM’s to hold overhead costs
- Prices trending up for most of the OEMs

**Expected Outcome**

- Improved OEM processes for obtaining better prices from their subs
- Ensure OEMs are taking appropriate measures to control overheads
- Continue LTC support
**Leveraging Commercial Capabilities**

**Lever**

- Leveraging Commercial Capabilities
  - Maximizing Contract Coverage on Commercial Price Listed LTCs
  - Developing other Customer Direct LTCs for Commercial-Off-The-Shelf items (COTS)
  - Executing a more cost effective methodology for support of Non-NSN

**Current Status**

- Reviewed COTS Coding for all NINs
- Categorized Groupings for Market Research
- Identified Contractors for Market Research (25)
- Conducting Market Research and Synthesize Information – 3rd Quarter FY12
- Build LTC Packages – 1st Quarter FY13

**Strategy / Future Actions**

- Where it makes business sense, establish Customer Direct LTCs for Commercial Catalogs.

**Challenge**

- Capturing Demands

**Expected Outcome**

- Eliminate duplication in the Supply Chains
- Improve support for Non-NSNs
## Expanding Use of Automated Procurements

<table>
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<th>Current Status</th>
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<tbody>
<tr>
<td>• Auto-buy Expansion: Auto-solicitation and Auto-award</td>
<td>• 85% of small purchases are auto-solicited</td>
</tr>
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<td>• Changes to levers implemented under operation full press in April 2012 – benefit realized over future years</td>
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<tr>
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<td>• Auto awards trend at approx. 3% lower material cost than manual awards</td>
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<table>
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<tr>
<th>Strategy / Future Actions</th>
<th>Expected Outcome</th>
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</thead>
<tbody>
<tr>
<td>• Minimize NSN Exclusions</td>
<td>• Enhance competition by fully leveraging automated capabilities</td>
</tr>
<tr>
<td>• Populate required T/Q Data</td>
<td></td>
</tr>
<tr>
<td>• Increase of Simplified Acquisition Threshold</td>
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</tr>
<tr>
<td>• Variable Pricing Factors by dollar value ranges</td>
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Other Initiatives

- Maximizing use of Reverse Auctions
- Providing Government Furnished Material
  - Raw Materials
  - Casting and Forgings
- Implementing Pricing Training and Workshops
- Maximizing use of Quantity Price Breaks
Points of Contact

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  - Competition Advocate and Acting Deputy Director of the Procurement Process Directorate, [Kenneth.Goodson@dla.mil](mailto:Kenneth.Goodson@dla.mil) 614-692-1121

- **Renee Magill**
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- **Eugene Mitchell**
  - Chief of the Strategic Sourcing Specialists, [Eugene.Mitchell@dla.mil](mailto:Eugene.Mitchell@dla.mil) 614-692-3886

- **Heath Berkshire**
  - Program Manager for the Material Cost Reduction Campaign, [Heath.Berkshire@dla.mil](mailto:Heath.Berkshire@dla.mil) 614-692-6288
Questions & Answers