Defense Supply Center Columbus

“Inventory Management Excellence and Acquisition Agility”

2012 Land & Maritime Supply Chain Business Conference

James M. McClaugherty, SES
Deputy Commander
June 11-13, 2012
Inventory Management Excellence and Acquisition Agility

Land and Maritime Mission Review
- Land Demand Chain
- Maritime Demand Chain

Demand Planning
- Demand Intelligence
- Tools

Supply Planning
- Inventory Levels
- Clean Out the Attic

Technical/Quality
- Counterfeit Avoidance

Execution
- Operation Full Press
- “Big Ideas"

Summary
- Culture = Performance
Land and Maritime Mission
DLA Organization
DLA Land & Maritime
“At a Glance”

**People**
- 3,019 Civilians
- 83 Active Duty
- 37 Reserve
- 5 Unions – 12 Locals

**Reach**
- 3 DLR Dets
- 4 Retail Dets
- 37 Forward Execution Sites

**Portfolio**
- 800K Contract Actions/yr
- 1.8M Items (NSNs)
- 4.1M Requisitions/yr
- 162K Customers
- 1600 Weapon Systems
- 5600 Suppliers

**Installation**
- 520 Acres
- 26 Tenants
- 8000 Employees
- Payroll $500M
- State/Local Tax $35M
- Infrastructure Value $1B
- Installation Opened May 1918
- 14 Name Changes

**FY11 Business Impact**
- Land Consumable Sales $2.428B
- Maritime Consumable Sales $2.010B
- Navy DLR Obligations $.237B
- Army/USMC DLR Obligations $.618B
- Retail Sales $.297B
- Total $5.590B
Forward Execution

**LEGEND**

- Fwd Exec/Maritime
- Fwd Exec/Land

**10 Maritime Customer Ops**
26 Land Customer Ops

36 Total Locations with 60 People
**Business Units & Roles**

**Demand Chains**

**Customer Operations**

**Land**
- 140K Customer DoDAACs
- 11.4M Requisitions Annually
- Worth $5.3B
- **Material Availability: 95%**

**Maritime**
- 23K Customer DoDAACs
- 2.7M Requisitions Annually
- Worth $7.5B
- Army & Navy FMS
- **Material Availability: 91%**

- **Single Customer Touch Point**
- **Demand Planning/Forecasting**
- **Retail Detachment Synchronization**

**Single Face to Warfighters**
Key Customers
Land Demand Chain

Industrial and Operating Forces Support…

- 6 Major Depots
- TACOM/CECOM/AMCOM/ASC/LOGCOM

A call from the operating forces is not a disruption of our daily routine.

…and a Weapons Systems Focus…

- Tracking 47 Level A Army & USMC Land Systems
MRAP Sustainment…
By the Numbers

MRAP/RCV Readiness
90%+
Over 4 Years Running

Stocked Parts
27,750
MRAP Parts

Parts Shipped
$2.52B
Since Jan 07
(Common/ Unique)

$ Shipped Weekly
$11M - $15M
Over 3 Years Running

OEMs / OEM Contracts
Six
OEMs & Long Term Contracts

Long Term Contracts
17
OEM & Secondary Suppliers

Sustainment Team
5-Person Team
6th Rotation

Focused NSN Reviews for Obsolescence
• Based to Current Variant Configurations
• JUONs Required for Survivability
• UCA Procurements
• ECPs/ Capability Insertions

Tot. Documents Shipped
SOH > 0 Cumulative

Focused NSN Reviews for Obsolescence
• Based to Current Variant Configurations
• JUONs Required for Survivability
• UCA Procurements
• ECPs/ Capability Insertions

NSN Growth Continues

Parts Have Evolved

DLA NIINs w/ SOH > 0
Land

Weapon System Readiness

Patriot
- High OPTEMPO leading to readiness concerns
- RESET
- PAC III RECAP
- Cable Readiness

Organic Manufacturing
- Fill urgent IPG1 BOs
- Combat Turrets @ RIA = $16M – FY11
- Housing Shock Absorbers @ RIA = $4.9M - FY12

5K FKLT
- Army KTR let to KALMAR RT
- System to replace Army and USMC 4K
- Army Test System identified minor QA
- USMC takes delivery of 6 systems in July

WSSP Data Issues
- 145 USMC and Army WSDCs with ≤ 10 NSNs
- Improvements made with USMC due to emphasis on Program

Common Initiatives
- Customer Engagement
- Forecasting
- IPG 1 BO Reduction
- WSDC Issues
- Provisioning

NSNs w/out WSDCs
Land Industrial Support Initiatives

Emphasis on Reset
- Forecasting Summit
- Demand Planning Roadshow
- CSR participation in depot production meetings

Customer Engagement
- LOGCOM VTC 15 Jun 12
- TACOM VTC Aug 12
- AMCOM VTC Aug 12
- CECOM VTC Aug 12

Automation Compatibility
- LMP-EBS
- SPRs
- Forecasting

USMC Maintenance Consolidation
- Single Commander
- Workload prioritization

Additional Initiatives

<table>
<thead>
<tr>
<th>Customer Engagement/ Collaboration</th>
<th>Forecasting</th>
<th>CCIR Management</th>
<th>Line of Balance Reviews</th>
<th>Industrial Forecasting Groups</th>
</tr>
</thead>
</table>

Meeting Production Needs Through Increased Collaboration
Key Customers
Maritime Demand Chain

Industrial and Operating Forces Support...

- 4 Major Shipyards (NNSY, PSNSY, PHNSY, PNSY)
- 11 Intermediate Maintenance Facilities
- NAVSUP WSS/NAVSEA

“...without a Respectable Navy, Alas America!”
- John Paul Jones

...and a Weapons Systems Focus...

- Tracking 16 Level A Navy Maritime Systems
Maritime Weapon System Readiness

Common Initiatives

- Customer Engagement
- Forecasting
- CASREP Reduction
- Deployer & INSURV Focus
- Provisioning

Nuclear Reactors Program
- Dedicated integrated support teams
- Consistently meeting all ship alts/outfittings
- 54 mths >95% MA

Ballistic Missile Defense
- Focused PUK support
- Critical items to Bahrain and Sigonella
- MA 95.1%

Mine Countermeasure
- Critical items to Bahrain and Sasebo
- Leveraging Demand Planning
- MA 91.6%

Littoral Combat Ship
- Partnering with PEO LCS
- Material Sustainment Plan
- MA 90.9%

Provisioning

- Performance
- Transformation
- Customer Engagement
- Forecasting
- CASREP Reduction
- Deployer & INSURV Focus
- Provisioning

Workforce Development
Culture
Global Support of Industrial Activities
Shipyard Support Summit

LA Class Support Enhancements
- Increased stock levels on > 7k critical items
- Developing plan to support all mandatory maintenance items
- Targeted support to readiness drivers

VA Class Support Enhancements
- Discussed lessons learned from VA EDSRA as we plan for TX at PHNSY
- Continue bi-weekly drumbeat calls

Forecasting Improvements
- Led to NAVSEA VSA Event on Forecasting
- NAVSEA increasing amount of material forecasted before A-0
- DLA to process forecast data directly

Bringing Integrated Approach to Industrial Support
Business Units & Roles
Retail SS&D

Supply, Storage & Distribution (SS&D)

**Norfolk NSY**
- 8500 lines - $17M
- 181K Annual Issues
- CVN, LA Class
- TRIDENT Overhauls
- Fwd MCM, PC Support
- 276 FTE

**Puget Sound NSY**
- 5400 lines - $14M
- 372K Annual Issues
- LA, CVN, SEAWOLF
- TRIDENT Overhauls
- IMF Support
- 259 FTE

**Pearl Harbor NSY**
- 4900 lines - $11M
- 80K Annual Issues
- LA, VA Class
- L-Decks
- Multi class CMAV Avails
- 111 FTE

**Portsmouth NSY**
- 5000 lines - $8.5M
- 136K Annual issues
- LA, VA Class
- Level 1 Subsafe COE
- 124 FTE

BRAC/Wynne Mission...Consolidate All Inventories
Demand Planning
Shared Intelligence and Forecasting Focus Areas

**Intel**
- Army G-4
- JPO MRAP
- AMC
- LOGCOM
- CENTCOM
- DST-A
- MARCORSYSCOM
- OSD
- DLA-C
- DLA Service Teams
- RAND

**Focus Areas**
- Tactical Wheeled Vehicle Divestiture
  - APS
  - MRAP
  - BMD/MCM Patriot
- Retrograde
- SSA Closures
- SPR Process
- FMS
- Suppliers
- Tire Support Initiative

**S&OP Process**
- Process
  - Internal
  - Enterprise
- Tools
  - Digital Demand Dial (3D)
  - Supply Plan Adjustments (DFU-SKU)
  - Constrained Supply Planning (CSP)

**Output**

**Actions**
- DLA Enterprise
- Services
- Suppliers
Demand Planning Tools

System, Software and Personnel

2005 Business Systems Modernization

JDA Software

Demand Fourier Algorithm

Demand Planner Role Created

Software and Demand Planning

2007 JDA Demand Classification Expanded

Five Algorithms Now Being Used

2010 Two Algorithms Added

2012 LMI & JDA Additional DP Models

Land Demand Plan Accuracy Improves from 32% (Nov 06) to 56% (Apr 12)
Maritime Demand Plan Accuracy improves from 33% (Nov 06) to 57% (Apr 12)
Supply Planning
Business Units & Roles
Supply Chains

Supplier Operations

**Land**
- 261K NSNs
- FY11 Sales: $2.427B
- FY12 Sales Plan: $1.962B
- Key Commodities: Tires, Small Arms, Wheeled & Tracked Vehicle Spares, Armored Components, batteries
- Material Availability: 82.7%

**Maritime**
- 1.565M NSNs
- FY11 Sales: $2.009B
- FY12 Sales Plan: $1.562B
- Key Commodities: Valves, Hardware, Pumps, Motors, Wire/Cable, Electronics
- Material Availability: 88.3%

Total Suppliers: 3080

Total Suppliers: 4591

Aligned With Industry
FY11 Item Portfolio Context

Land Supply Chain
- NIIN Distribution:
  - 266K NSNs
  - 86%
  - 5%
  - 9%

- Order Distribution:
  - 86%
  - 11%
  - 3%

Maritime Supply Chain
- NIIN Distribution:
  - 1.573M NSNs
  - 94%
  - 1%
  - 4%

- Order Distribution:
  - 68%
  - 24%
  - 8%

Small Number of Items Drive the Business
## Apr 12 Land and Maritime SC Values

<table>
<thead>
<tr>
<th>Inactive Inventory</th>
<th>Active Inventory</th>
<th>Total Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>.12B</strong> Potential Reutilization Stock (PRS)**</td>
<td><strong>.59B</strong> Contingency Retention Stock (CRS)**</td>
<td><strong>2.14B</strong> Approved Acquisition Objective (AAO)**</td>
</tr>
<tr>
<td>Excess inventory available for disposal</td>
<td>Readiness-Based Retention</td>
<td>Safety Level</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Admin Lead Time</td>
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<tr>
<td></td>
<td></td>
<td>Production Lead Time</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Coverage Duration</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Backorders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 yrs Forecast Demand</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Reduction Goals</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AAO</td>
<td>26%</td>
</tr>
<tr>
<td>ERS</td>
<td>27%</td>
</tr>
<tr>
<td>CRS</td>
<td>58%</td>
</tr>
<tr>
<td>PRS</td>
<td>~$0</td>
</tr>
</tbody>
</table>
Protecting the Supply Chain Tools to Assure Conformity

### Pre Award
- Technical Data Validation
- Heightened QA Management (e.g., Critical Application Item)
- Supplier Qualification
- Pre-Award Survey

### At Award
- Traceability
- DLA Contractor Review List
- Quality Letter of Instruction
- Pre-acceptance Tests (e.g., First Article Testing)

### Post Award
- Customer Complaints (PQDRs)
- Product Verification testing
- Counterfeit Material/Unauthorized Product Substitution
- Fraud Program
- Source Inspection by DCMA

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Continual Vendor ESA Engagement
# Protecting the Supply Chain Initiatives and Programs

## Operational Evaluation Team
- HQ-driven
- Mitigate the risks of counterfeits
- Pursuing multiple initiatives
  - QLD
  - Testing
  - Procurement practices

## Qualified Suppliers List, Distributors
- Narrow range of suppliers of high risk items
- Mitigate risk of “Kitchen Table Brokers”
- Ensure traceability
- Currently microcircuits
- Expand to other commodities

## Product Test Center
- Range of inspection and test capabilities
  - Mechanical
  - Troop Support
  - Electronic
  - 3 Sites
- Inspects pre and post award
- Identifies nonconforming parts for action

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**Congressional Interest Area**
Protecting the Supply Chain
Product Test Center

**Operational Status of Four Test Sites**

- Support Land and Maritime, Aviation, and Troop Support
- Average Approx. **3,000 Projects per Quarter**
- Test Cycle Times at 98.5% of Goal
- FY12 Net Operating Results on Target
- Suspect Counterfeit Mechanical and Electronic Items Reported to DLA Each Month

**Current Challenge**

- DLA J7 Assigned Goal to Save $1.23M by FY17
- CPI Event Recommendation to Consolidate Mechanical Labs. Close West Lab and Strengthen Columbus Lab
- Recommendation Submitted to DLA in December 2011
- Recommendation on Hold
- Will Follow-up With DLA in 4th Qtr. FY12.

**ISO 9001 Registration Maintained at All Test Sites**
Execution
VADM Harnitchek’s Guidance

“...target areas I’d like you to start working now.”

- 90% Material Availability (MA)
- Reduce Backorders (BOs) 25%
- 85% of BOs <180 Days Old
- Zero Purchase Requests > Admin Lead Time
- 100% On Time Delivery of Depot Level Reparables
Productivity

Land

PRs


Manual Awards

May-12

Performance
Transformation

Land and Maritime

Workforce Development
Culture
## 5 “Big Ideas”

<table>
<thead>
<tr>
<th>Strategic Focus Area</th>
<th>Description</th>
<th>Expected Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Improve Customer Service</td>
<td>“Delight Our Customers”</td>
<td>95% Customer Service Level (MA%)</td>
</tr>
<tr>
<td></td>
<td>Improve total service delivery by 10% points and measure ourselves by customer standards</td>
<td></td>
</tr>
<tr>
<td>2. Decrease Direct Material Costs</td>
<td>“Be Smart Buyers of the Right Stuff”</td>
<td>$1.14B/yr (average)</td>
</tr>
<tr>
<td></td>
<td>Reduce the direct cost of fuel by 1-3% across all fuel products. Reduce total direct material costs by 5% through the use of agile acquisition techniques leveraging commercial supply chains, without creating redundancy</td>
<td></td>
</tr>
<tr>
<td>3. Decrease Operating Costs (CRR)</td>
<td>“Improve Process and Productivity”</td>
<td>$0.28B/yr (average)</td>
</tr>
<tr>
<td></td>
<td>Reduce distribution and transportation costs by 25% and achieve 3% efficiency gains from personnel, ADP, facility maintenance and IT</td>
<td></td>
</tr>
<tr>
<td>4. Reduce Inventory</td>
<td>“Clean Out the Attic”</td>
<td>$7.6B (total by FY17)</td>
</tr>
<tr>
<td></td>
<td>Attack both War Reserves and Operational Inventory through better leverage of commercial infrastructure and agreements; review and adjust strategic requirements</td>
<td></td>
</tr>
<tr>
<td>5. Achieve Audit Readiness</td>
<td>“Prove It”</td>
<td>Reduced Risks</td>
</tr>
<tr>
<td></td>
<td>Demonstrate our commitment to transparency and accountability. Use audit readiness as a lever to identify and drive future improvement opportunities</td>
<td></td>
</tr>
</tbody>
</table>
1. Improve Customer Service: “Delight Our Customers”

<table>
<thead>
<tr>
<th>Lever</th>
<th>Owner: DCOs</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Decrease customer AAC D</td>
<td>• Decrease customer AAC D backorders by increasing Material Availability</td>
<td>• Operation Full Press</td>
</tr>
<tr>
<td>backorders</td>
<td></td>
<td>• PR prioritization (focus on AAC D)</td>
</tr>
<tr>
<td>by increasing Material Availability</td>
<td></td>
<td>• Continued focus on top backordered NIINs</td>
</tr>
</tbody>
</table>

**Strategy / Future Actions**

- Increased Focus on AAC D
- Increase # buyers
- Evaluate coverage duration
- Review DPC (quotes for WIQ PRs)
- Use OASIS to identify anomalies

**Expected Outcome:**

<table>
<thead>
<tr>
<th></th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
<th>17</th>
<th>18</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matl</td>
<td>.5%</td>
<td>1%</td>
<td>1.5%</td>
<td>2.0%</td>
<td>2.5%</td>
<td>3.5%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

- 50% of backorders established against AAC D NSNs
- 50% improvement in support of AAC D NSNs results in 3.5% increase in MA
# DLA Land and Maritime

## Big Ideas

1. Improve Customer Service: “Delight Our Customers”
2. Decrease Material Costs: “Be Smart Buyers of the Right Stuff”

### Lever

**Owner:** BA, DCOs

- **Improve Demand Planning**

### Current Status

- Over / Under Forecasting Improvement
- Forecasting Summit Actions
  - Fcst Reductions in SSAs & SMU Closures,
  - Continuous Monitoring Program (CMP)

### Strategy / Future Actions

- **Implement Forecastability Analysis**
  - LMI / JDA coordination
  - Continued aggressive collaboration on SPR validation
- **Expansion of Formal and Informal Collaboration projects**
  - Carrier One, Navy Material Forecasting, CMP
- **JDA new technology: new algorithms**

### Expected Outcome

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<th>18</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matl</td>
<td>7</td>
<td>15</td>
<td>24</td>
<td>30</td>
<td>34</td>
<td>110</td>
<td></td>
</tr>
<tr>
<td>MA</td>
<td>.5</td>
<td>.5</td>
<td>.8</td>
<td>1.0</td>
<td>1.0</td>
<td>1.3</td>
<td>1.3% pts</td>
</tr>
</tbody>
</table>

- Expected improvements in MA tied to achieving 95% MA
- Improved DPA / APFE
## DLA Land and Maritime
### Big Ideas

### 4. Reduce Inventory: “Clean out the Attic”

<table>
<thead>
<tr>
<th>Lever</th>
<th>Owner: BA</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Review Material Retention Levels</td>
<td></td>
</tr>
<tr>
<td>• Execute Disposal Reviews</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Processing Automated Disposal Actions</td>
</tr>
<tr>
<td>• Drafting Manual Review Job Aid</td>
</tr>
<tr>
<td>• Reviewing MRAP Disposal Candidates</td>
</tr>
<tr>
<td>• Reviewing HMMWVV Candidates</td>
</tr>
</tbody>
</table>

### Strategy / Future Actions

- Decreased ERS, CRS Retention Levels
- Reduction in PRS Inventory
- DMS disposals
- Focused Inactive Inventory Reviews
- NRFI Reviews
- Review stockability criteria

### Expected Outcome

<table>
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<tr>
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<th>15</th>
<th>16</th>
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<th>18</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inv</td>
<td>-160</td>
<td>-410</td>
<td>-665</td>
<td>-860</td>
<td>-1.0B</td>
<td>-1.1B</td>
<td>-1.1B</td>
</tr>
</tbody>
</table>

- Reduce/Dispose of **35% of ERS**
- Dispose of **50% of CRS** Every 2 Years
- Dispose of more Eligible PRS