



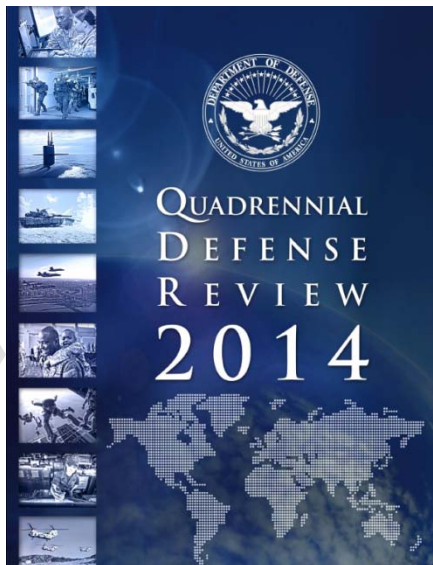
National Defense Industrial Association



Acting Assistant Secretary of Defense
Logistics & Materiel Readiness
16 April 2014



Strategic Guidance

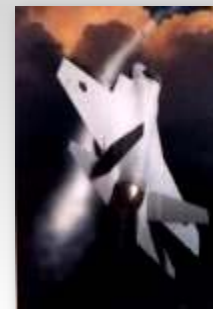


MILITARY



- Smaller
- Leaner
- Technologically Advanced

PROTECT & PRIORITIZE



- Key investments in technology and new capabilities

REBALANCE GLOBAL POSTURE



- Include:
- Asia-Pacific
 - Middle East

CAPABILITY



- Quickly confront and defeat aggression from any adversary – anywhere, anytime

DIPLOMACY

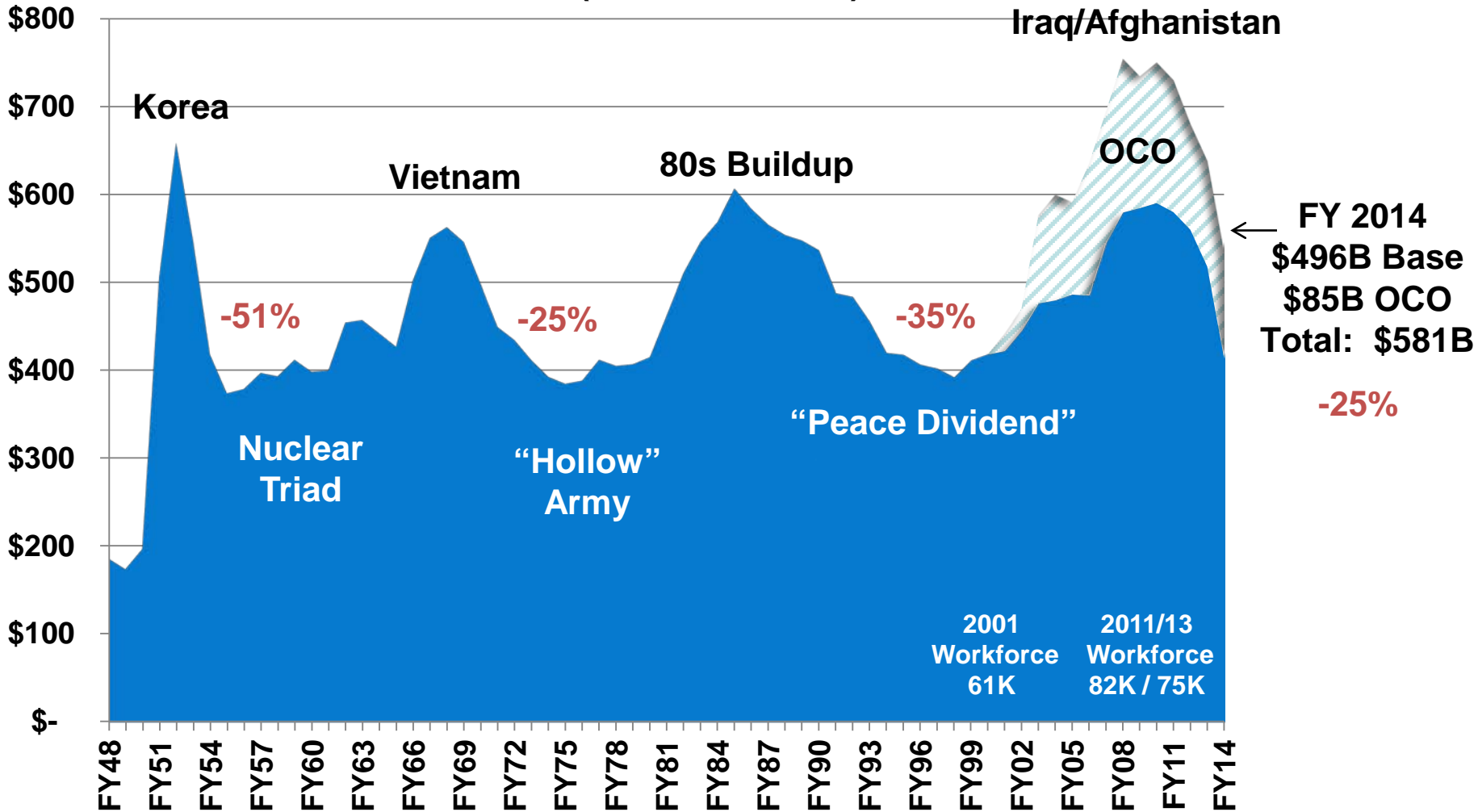


- Build innovative partnerships
- Strengthen key alliances & partnerships from Europe to Latin America to Africa



Historic Trends in Defense Spending

DoD Budget Authority (in FY14 Dollars)





Overview

AT&L Strategic Goals

- Support forces engaged in overseas contingency operations
- Achieve affordable programs
- Improve efficiencies
- Protect the future
- Strengthen industrial base
- Strengthen workforce

Warfighter Support

- Provide disposal and retrograde authorities to support AFG timeline and Resolute Support Mission, and OSC-Iraq operations
- Implement Consolidated Guidance for Retrograde and Disposition of Equipment
- Continue to establish OCS processes and standards

Acquisition/Affordable Programs

- Establish logistics cross-functional support to F-35
- Improve Life Cycle Sustainment Plans to better support Milestone Decisions
- Publish PBL Best Practices Guidebook
- Publish O&S Cost Management Handbook

Efficiencies

- Continue implementation of Inventory Management Plan and supply chain efficiencies
- Work with GAO to remove Supply Chain from High Risk
- Continue regional consolidation of Personal Property Support Offices
- Establish enterprise supply chain performance reviews

Protect the Future

- Implement passenger screening against No-Fly list on all DoD flights
- Assess Component strategies to address counterfeit vulnerabilities in DoD supply chain

Strengthen Organic Industrial Base

- Publish Arsenal instruction establishing importance of arsenal capabilities across DoD
- Establish DoD-wide structure for Depot Source of Repair decision-making
- Establish senior logistics public-private partnership council to facilitate cost reduction strategies across industry and DoD

Strengthen the Workforce

- Shape and implement logistics planning and Product Support Manager workshops
- Recognize PBL, Supply Chain, and Maintenance best performers

AT&L FY14 Priorities

- Warfighter SIG
- Implement BBP 2.0
- Business Systems Acquisition/Management
- Technological superiority and erosion
- Protect the future
- Close tracking of industrial base
- Strengthen AT&L workforce
- Legislative initiative



Warfighter Support Accomplishments

- ✓ Published ***Consolidated Guidance for Equipment Retrograde and Disposition*** in Afghanistan
 - ✓ Military and contractor equipment and property
 - ✓ Excess Defense Articles and Foreign Excess Personal Property transfers/donations

- ✓ Provided authorities for planning/execution of closure of 5 remaining DoD bases and their disposition of equipment in Iraq

- ✓ Provided disposal and demilitarization authorities tailored to mission requirements
 - 32K containers of equipment worth \$1.2 billion ... approximately 25% / \$1.1 billion retained ...75% / \$75 million disposed (Dec 2011 - Jan 2014)
 - Donated \$88M (fair market value) of commercial equipment to Afghan government ... saving \$1.1B in transportation costs to date.
 - Disposed 65K containers of scrap ... 750M pounds ... and demilitarized 8K vehicles (including 1101 MRAPs)

- ✓ Provided disposal and demilitarization authorities to support Coalition Partners operations

- ✓ Established international code of conduct and National ANSI standards for Private Security Contractors





Warfighter Support Goals

- ❑ **Maintain support** and provide authorities for Retrograde and Disposition / Demilitarization of equipment to meet AFG December 2014 timeline
 - 17K pieces of rolling stock ... includes ~4800 MRAPs (~1600 are excess)
 - 4K containers of equipment & supplies
 - 18K containers of contractor materiel
- ❑ Provide authorities to USFOR-A keeping pace with Operation Drumbeat requirements through December 2014
- ❑ Support post-2014 Afghanistan Resolute Support Mission footprint
- ❑ Further develop operational concept for managing contractors in contingency operations
- ❑ Continue Inter-Agency dialogue on logistics support requirements





Acquisition & Affordable Programs

- ✓ Published ***BBP PBL Comprehensive Guidance***
- ✓ Completed ***F-35 O&S Cost Reduction Study***
- Improve content of ***Life Cycle Sustainment Plans*** to provide effective information supporting milestone decisions ... Refine Annotated Outline (2011) to include
 - O&S Affordability
 - O&S Should Cost initiatives
 - Clarify use of LSCP with PBL arrangements
- Publish ***PBL Best Practices Guidebook***
- Issue ***O&S Cost Management Handbook***
- Integrate PBL best practices with DAU course curricula
- Release DoD-wide RFP for cross-service common aircraft components provided by Honeywell



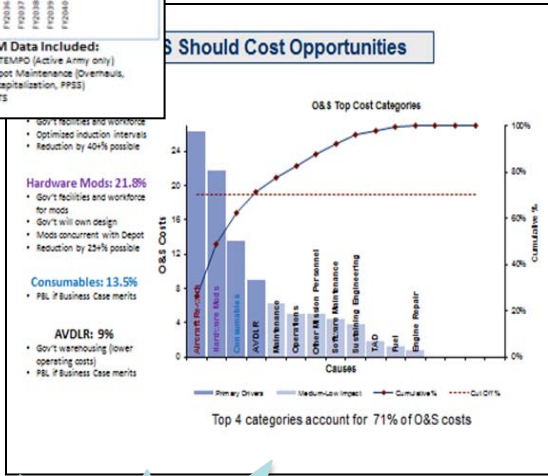
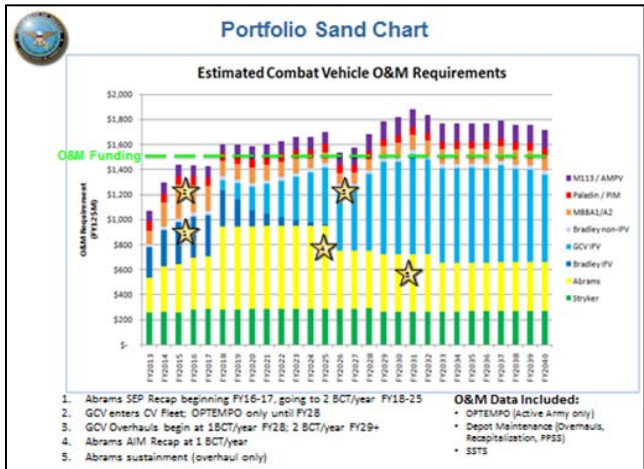


Better Buying Power 2.0 and DoDI 5000.02 Stress Life-Cycle Affordability Affordable Programs Through Improved Product Support

- Mandates affordability as a requirement and use of related performance metrics
- Requires “should cost” based management
- Increases focus on sustainment planning
- Encourages effective use of Performance-Based Arrangements

Critical attributes:

- “Outcome” acquired; not traditional transactional contract
- “Handful” of metrics related to desired outcome
- Provider incentivized to be innovative ... without micromanagement
- Trust between government and provider

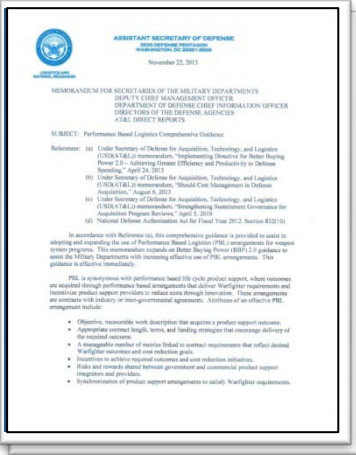


**Lower Cost
Better Supportability
Stronger Industrial Base**



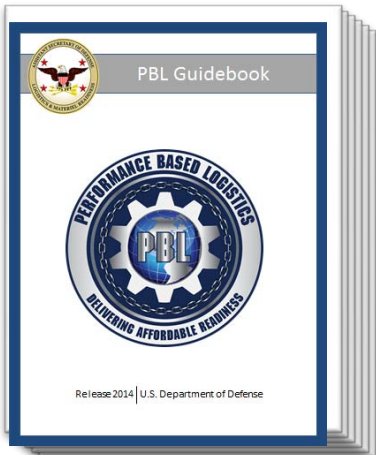
Performance Based Arrangements are Effective ... When Properly Structured and Executed

PBL Guidance Memorandum (November 2013)



- Provides definition and attributes of effective performance based arrangements
- Includes considerations for where PBL implementation may not apply
- Provides indicators of effective performance based arrangements
- Defines OSD and Service actions
 - Include plans for assessment in milestone decision reviews
 - Review departmental barriers to adopting performance based arrangements
 - Assess performance based arrangement effectiveness in sustainment reviews
 - Assess PBL skills gaps and refine training and DAU learning assets

Performance Based Arrangement Guidebook (April 2014)

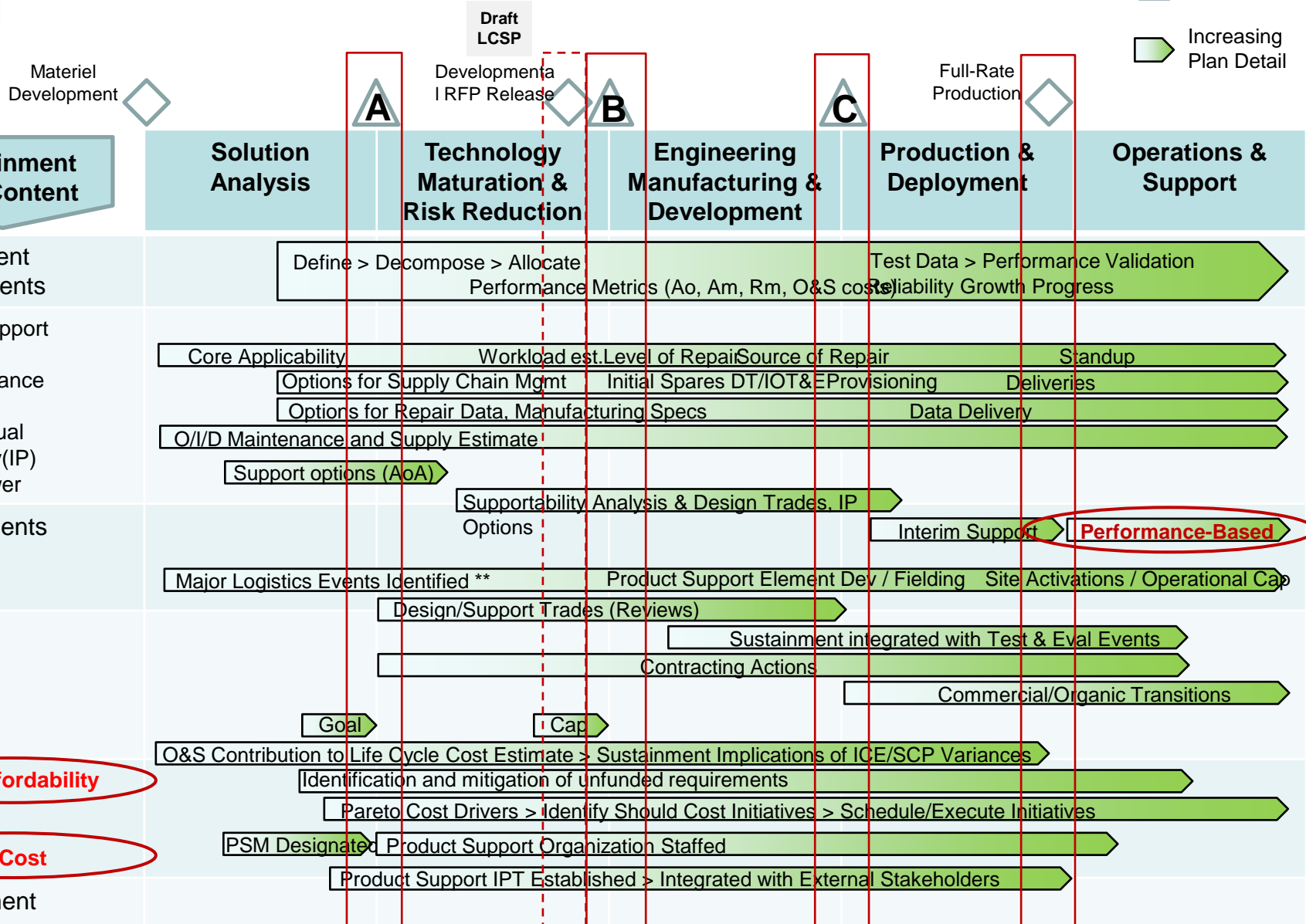


- Reference for the skilled practitioner...How-to guide for those new to PBL
- Consolidated resource of best practices needed to implement effective arrangements
- Unifying use-case to demonstrate concepts in practice
- Metrics reference guide of 150 performance metrics
- Frequently Asked Questions section



Improving Sustainment Plans (LCSP) to support milestone decisions

- ◇ Decision
- △ Milestone
- Increasing Plan Detail



- **O&S Affordability**
- Cost
- Funding
- **Should Cost**

Effective LCSPs capture the progression in the program's critical thinking as the system is developed and deployed

*other product support elements may include Transportation
 ** Major Logistics Events could include



Logistics Organic Base Strengthening

- ❑ Identify and protect critical capabilities
- ❑ Issue Arsenal instruction establishing importance of capabilities ... procedures to identify critical manufacturing capabilities and workloads of the arsenals
- ❑ Issue Depot Source of Repair Instruction to establish DoD-wide structure for depot source decision making
- ❑ Establish Senior Logistics Public-Private Partnership Council to facilitate cost reduction strategies across industry and DoD





Efficiency

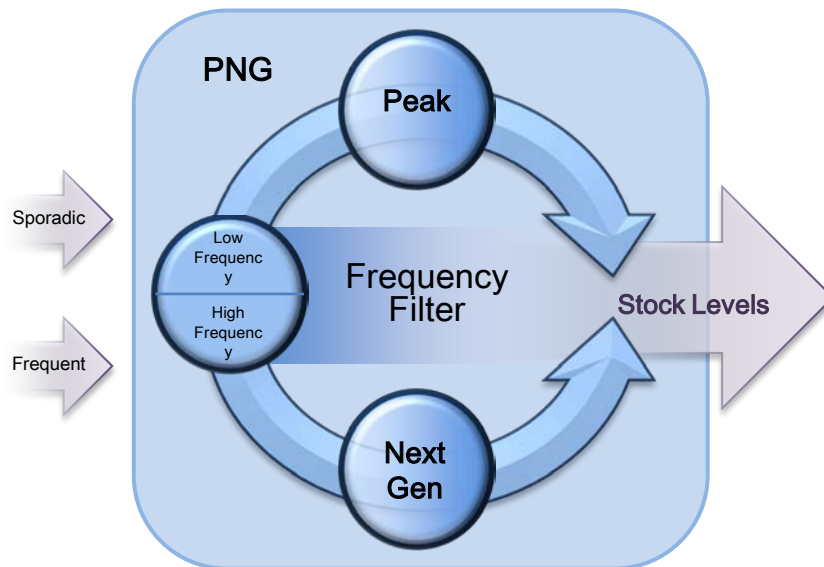


- ✓ Implementing ***Comprehensive Inventory Plan***
 - On-hand excess inventory reduced by \$8B
 - Excess inventory orders reduced from \$1.1B to \$564M
 - Backorders and planned procurements reduced by \$218M
- ✓ Developed ***Distribution Network re-engineering*** Phase I ... \$402M in transportation savings
- ✓ Implemented CFO/FIAR compliant inventory procedures for Service-owned material located in DLA warehouses
- ✓ Consolidated nine personal property shipping offices
- ❑ Validate SNO Phase I savings of \$402M in POM15 and develop Phase II inventory optimization business model
- ❑ Continue execution of ***Comprehensive Inventory Management Improvement Plan***
- ❑ ***Institutionalize enterprise supply chain metrics*** and performance reviews
- ❑ Leverage international Joint Logistics Forums for continued global supply chain information sharing/participation with Allies



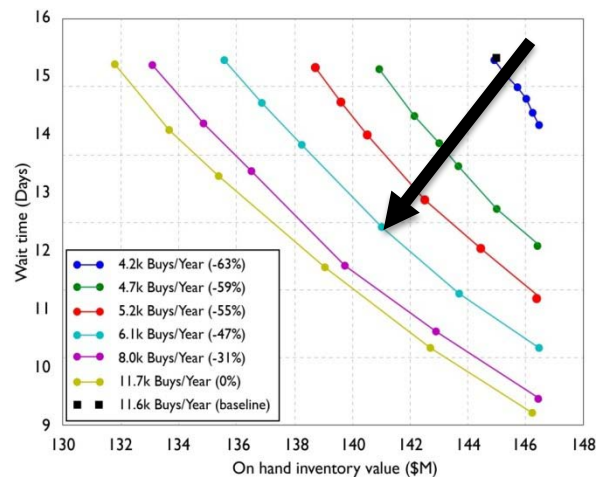
Setting Stock Levels for “Non-Forecastable” Items

- Traditional Forecasting for items with predictable demand patterns
- Updated policy to set Min/Max levels for items with:
 - Infrequent demand
 - Frequent and highly variable demand



Results with consumable items:

- Improving material availability
 - Peak—up from 72.4% to 78.4%
 - NG—up from 84.9% to 87.4%
- Filling backorders
 - Peak—down from 55K to 40K
 - NG—down from 47K to 38K
- Generating fewer orders ... down 10% so far
- Decreasing On-hand inventory



Sponsoring pilots with Army and Air Force to assess ...



Institutionalizing DoD Supply Chain Metrics

Attribute/Outcome	Definition	Current OSD Metrics	OSD Metrics Under Development
Matériel Readiness	The ability of the supply chain to support weapon systems in undertaking and sustaining their assigned missions at planned peacetime and wartime utilization rates	<ul style="list-style-type: none"> • NMC Rates • NMCS Backorders 	
Responsiveness	The ability of the supply chain to respond to customer matériel requests according to priority by providing the right support when it is needed and where needed	<ul style="list-style-type: none"> • Customer Wait Time (O Level) • Logistics Response Time 	<ul style="list-style-type: none"> • Response Time Effectiveness
Supply Chain Reliability	The dependability and consistency of the supply chain providers in delivery of required material support at a time and destination specified by the customer	<ul style="list-style-type: none"> • Wholesale Perfect Order Fulfillment (DLA) • Denial Rates • Wholesale Supply Availability • TDD Compliance 	
Cost	The amount of supply chain resources required to deliver a specific performance outcome	<ul style="list-style-type: none"> • Value of Secondary Item Inventory • Inventory Segmentation of No Demand Items • Supply Management Costs • Supply Management Cost Changes • Log Cost Baseline • Unserviceable DLR Asset Write-Offs 	<ul style="list-style-type: none"> • Tiered Inventory Turns
Planning and Precision	The ability of the supply chain to accurately anticipate customer requirements and plan, coordinate and execute accordingly.	<ul style="list-style-type: none"> • Excess On-Hand • Excess On-Order • Demand Forecast Accuracy and Bias • Unserviceable DLR Return Time • Unserviceable DLR Over-Aged Due-Ins • Procurement Lead Times • Lead Time Variances 	



Points of Emphasis

- Maintain logistics support and authorities to AFG and Iraq operations
- Improve content of Life Cycle Sustainment Plans to support Milestone Decisions
- Publish PBL Guidebook and O&S Cost Management Handbook ... assist Components adoption and implementation in direct support of BBP 2.0
- Establish Logistics Public Private Partnership Council to facilitate opportunities in cost reduction strategies
- Issue Instruction underscoring Arsenal capabilities
- Establish depot source of repair decision-making structure
- Assess Component counterfeit detection/prevention efforts
- Institutionalize supply chain performance reviews

