

LOGGLINES



BIG IDEAS

*Improve Customer Service ♦ Decrease Material Costs ♦ Reduce Inventory
Decrease Operational Costs ♦ Achieve Audit Readiness*

Report Documentation Page

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from the **DIRECTOR**

Navy Vice Adm. Mark Harnitchek, USN Director, Defense Logistics Agency

In August, we held our Hall of Fame induction ceremony where five former DLA employees were recognized for contributions that helped shape this great agency. Their accomplishments are evidence that our rich heritage of success comes directly from our employee base. As we round out DLA's 51st year of service and support to America's warfighters, we find ourselves at a turning point within the agency and the Department of Defense. We are facing an increasingly complex future that demands innovative ideas and new ways of doing business.

This is a critical journey that requires

all of us to look at our operations from end to end, correcting the course where we need to, but also charting new courses to achieve our overarching goal of significantly improving DLA's performance to warfighters while dramatically reducing costs. Earlier this year, the agency's senior leadership team developed a plan called "10-in-5," organized around five core "Big Ideas" and supporting initiatives, that sets DLA on a path to reach a 10 percent savings rate over the next five years.

Many of our 10-in-5 initiatives are well under way and others are already seeing noteworthy results. In March, we completed the first of three phases of Strategic Network Optimization, which will ultimately reduce the cost, infrastructure and inventory associated with maintaining 26 distribution centers worldwide.

At DLA Headquarters, we're holding regular face-to-face "Captains of Industry"

meetings with key suppliers to encourage their best efforts and obtain their advice about strategies to reduce the cost of the materiel and services they provide to our military customers. Acquisitions professionals are working hand in hand with our industry partners and customers to develop new approaches that will improve our buying processes and take advantage of commercial supply chains when it makes good business sense. The field activities are looking to consolidate buys across the military services, which means we can buy in larger quantities and yield increased savings for our warfighting customers.

Every day I read the comments on the "Direct Channel" blog and am constantly impressed with the volume and scope of ideas many of you have for improving the agency's support. We also implemented "Ask a Leader," a new website where you can ask questions and voice your ideas and suggestions for making DLA a better agency and logistics enabler for America's warfighters.

No one leader, employee or customer has the market cornered on good ideas — we all have a stake in the 10-in-5 strategy. I believe wholeheartedly in the DLA team, and I know we'll reach even our most aggressive goals.

Let's keep the big ideas coming. Happy 51st anniversary, DLA! 🇺🇸

LOGLINES

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THE BIG FIVE

Story by Beth Reece

The goal: save \$10.3 billion in five years. It's a lot to ask of his employees, but Defense Logistics Agency Director Navy Vice Adm. Mark Harnitchek said he is certain they'll succeed.

"We must build on DLA's history of innovation, successful performance and cost control, and leverage various means to do even better, and do so as quickly as possible," Harnitchek wrote in a May 9 blog post.

Harnitchek announced the initiative, known as the "Director's Big Ideas," in March after President Barack Obama and Defense Secretary Leon Panetta released a new national defense strategy that includes a \$500 billion cut for the Defense Department over the next 10 years.

In fiscal 2011, DLA spent about \$46 billion, with about \$5 billion going toward personnel, operations and facilities.

"That leaves about \$40 billion of stuff that we buy, whether it's food, fuel, pharmaceuticals or repair parts for the military services. The president is expect-

ing us to do better, so that's what we're going to do," the director told employees in April during a Director's Call in which he encouraged employees to share their ideas on how to make it happen.

The \$10 billion in savings is expected to occur in 2 percent increments beginning in fiscal 2014 and involves five focus areas: decrease direct material cost, decrease operating costs, reduce inventory, improve customer service and achieve audit readiness. While the effort is not expected to cost any of the agency's 27,000 employees their job, the agency won't be able to count the shrinking demand for wartime supplies as part of the savings, Harnitchek said.

Decreasing Direct Material Costs

DLA Acquisition Director Nancy Heimbaugh said the largest portion of the savings are to be achieved through material cost reductions.

"This will require us to expand the use of innovative techniques that have proven to provide the best prices and best support

to our customers," she said. "This includes awarding more long-term contracts, expanding the use of automation in awarding contracts, and utilizing such innovative contracting techniques as performance-based logistics and tailored logistics support arrangements. Additionally, we must leverage best government and commercial practices such as reverse auctions."

Lower material costs will account for about \$8.6 billion in savings, said Matt Beebe, DLA Acquisition deputy director. Long-term contracts and reverse auctions are already being used to achieve better prices, but Beebe said those tools will become more prominent in the years to come.

Placing popular items on long-term contracts rather than buying them





A Chinook helicopter picks up a load of equipment during a resupply mission at Camp Bastion, Afghanistan. The Defense Logistics Agency is working to cut the cost customers pay for such material by as much as \$8.6 billion in the next five years.

— Photo by U.K. Royal Air Force Flight Sgt. Graham Spark

through a series of one-time purchases guarantees vendors business and improves the chance for lower costs, he said. And unlike traditional bidding, where suppliers don't know who is competing for a contract or how much they're bidding, reverse auctions allow suppliers to see what others are bidding, thereby encouraging them to propose a lower figure.

Acquisition experts will also look for new ways to take advantage of existing commercial capabilities, similar to how DLA Troop Support relies on

private-sector vendors to buy, store and deliver food and pharmaceuticals.

"Years ago we realized there was a commercial industry that already had great success doing this; we didn't need to do it ourselves. While we can't apply the prime vendor model to all of our supply chains, we may be able to rely on a commercial vendor to do smaller groups of items," Beebe said, adding that supplies like light bulbs



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“We buy way too much inventory that we don’t use, and we keep it too long.”

— Navy Vice Adm. Mark Harnitchek

and bolts could easily be managed by commercial companies.

A market study will also give the agency a “should-cost” analysis that outlines what DLA has historically paid for items versus what industry has charged to determine whether present costs are normal, above normal or below.

“This will help us target our efforts in areas where we’re certainly above the normal cost,” Beebe said, adding that the in-depth analysis will arm buyers with data that allows them to make quick comparisons and determine fair and reasonable prices.

Heimbaugh said DLA employees should treat the agency’s money like it was their own.

“Each of us must apply the same diligence in spending taxpayer funds as we do when we go to the grocery store or shop for a new vehicle with our personal funds,” she said. “This may be a simplistic analogy, but it speaks to the same budgetary concern we should exercise with each contract dollar we award.”

Decreasing Operating Costs

DLA will save another \$1.7 million by reducing operating costs that go toward warehouse, distribution

and transportation services, as well as infrastructure and information technology. These costs are built into the agency’s cost-recovery rate and passed on to customers as part of the total cost of goods and services. Reductions in the cost-recovery rate will be noticed and appreciated by military customers, Harnitchek said, especially as they look for ways to cope with their own shrinking budgets.

While some reduced costs will result from consolidating inventories, closing



Army Staff Sgt. Kyle Richardson

Army Spcs. Alexander Perez and Cherish Truong exit a UH-60 Black Hawk helicopter during a military training exercise. In 2011, DLA spent about \$40 billion on supplies ranging from food to fuel in support of military operations around the world.

warehouses and leveraging industry's ability to store and deliver high-demand items, the rest will come from reducing the cost of information technology.

DLA Information Operations Director Kathy Cutler said her staff will have two major roles.

"One is to help other organizations within the agency achieve their Big Idea goals by providing enhanced IT capabilities, automating processes or providing them with an IT solution that they don't already have. The second part of that is making our own internal operation more efficient and reducing the cost of IT operations for the agency," she said.

IT professionals will work with the Defense Information Systems Agency to find more efficient ways of storing data and providing communications capabilities.

"For instance, we are using Voice over Internet Protocol to reduce telecommunication costs. VoIP delivers communication services over the Internet vice the telephone network. Over time, VoIP will allow us to reduce equipment and infrastructure, which will reduce our communications costs while improving users' capabilities," Cutler said.

Showing internal customers the cost of IT functions and presenting less expensive alternatives will also help DLA leaders make educated decisions about which IT solutions are most effective and economical, she added.

Reduce Inventory

Large inventories are another opportunity for savings. While not part of the \$10.3 billion goal set by the DLA director, inventory reductions will lead to savings in internal infrastructure costs.

"We do not do a very good job forecasting what our needs are," Harnitchek told defense reporters in June. "We buy way too much inventory that we don't use, and we keep it too long. ... That has been a legacy problem as long as I've

Navy Petty Officer 3rd Class Billy Ho



been in the logistics business."

DLA Distribution will comb through its \$13 billion in current inventory to clear out unnecessary items and set benchmarks for how long it will keep material in the future, said Barry Christensen, chief of DLA Logistics Operations' Demand and Supply Planning Branch. Inventory managers will begin weighing such factors as the cost of storage, production lead times and operational risks of removing inventory, he said.

"Cleaning the attic is not the only focus of this effort. We need to reduce future excess inventories with better demand planning and collaboration with customers, and make improvements in our lead times internally and with our vendors," Christensen said.

Decreasing the \$1.6 billion

Navy Seaman Justin Willingham performs maintenance on a Seahawk helicopter aboard the aircraft carrier USS George H.W. Bush. DLA is working to reduce the price warfighters pay for common items such as bolts and screws by relying on commercial industry to manage them.

contingency-retention stock that DLA manages for the services will bring additional cost reductions.

"You don't necessarily have a strong economic basis for keeping \$1.6 billion, so my guess is there will be a 70 to 90 percent reduction in the next few years, barring any outcries from the services," he added.

And finally, clearing up space at DLA facilities will enable the agency to assume storage of material the services are keeping in warehouses around the world.

"Then the services can shut down some of their warehouses, especially those in need of refurbishing, and not



Big Ideas

Reducing inventories and cutting material costs means DLA employees will have to work closely with customers to understand their needs and challenges.

have to pay high maintenance costs. When you add up all the different installations across DoD, it can add up to some big numbers,” he said.

Improve Customer Service

Reducing inventory and cutting material costs means DLA employees will have to work closely with customers to understand their needs and challenges, said Jonathan Mathews, acting executive director of operations and sustainment for DLA Logistics Operations.

“To gain the efficiencies that everyone is looking for and to be more effective with fewer resources, we really have to partner with our customers. We have to understand what their requirements are and what they’ll need us to do for them in the future so they can focus more energy and resources on their own core competencies, because they’re going to be impacted by resource cuts even more so than we are,” he said.

The agency earned a reputation for providing excellent logistics support

during the wars in Iraq and Afghanistan, especially by sending its own employees in harm’s way to provide service on the battlefield, he continued. However, more work is needed to ensure employees, particularly those in contracting, have the skills to quickly respond to changes in customers’ requirements.

“The days of sitting back and just waiting for somebody to give us a requirement are gone. We have to be fast; we have to be agile,” he said, adding that military customers should view DLA not



Beth Reese

Cleaning unneeded material out of DLA’s inventories will lead to savings in internal infrastructure costs.

Saving \$10.3 billion in the next five years will help DLA better serve customers like Army Spc. Daniel Miller, shown here providing security in Zabul province, Afghanistan.

— Photo by Air Force Staff Sgt Brian Ferguson

as a commercial defense firm, but as a fellow federal agency that provides expert logistics solutions because its employees are “as far forward as they are.”

Achieve Audit Readiness

The agency will further demonstrate its commitment to customer support and lower costs by improving financial processes and making its business processes audit-ready.

“We want to make sure the numbers we’re reflecting in our financials are accurate,” said Simone Reba, deputy director for DLA Finance and program manager for audit readiness. “In the private sector, if you don’t do this, you go out of business, because investors lose confidence in the company.”

After validating DLA’s financial data, Reba’s team will standardize business processes as much as possible.

“Complexity creates more risk as well as increases the audit readiness workload and associated audit sustainment costs. It creates additional infrastructure and training needs. Bottom line, it’s expensive and can be inefficient,” she said.

And when leaders understand how much the agency’s processes cost, they can make more informed decisions on what costs can be eliminated without sacrificing mission performance, she continued.

Harnitchek has admitted that his savings goals will be challenging, but DLA leaders agree that the opportunities exist.

“It’s through these times of crisis that a lot of innovation comes out. There’s no question that there’s \$10 billion of opportunities out there,” Beebe said. 🌟





Energy for Less

Story by Terry Shawn and Susan Lowe

Defense Logistics Agency Energy is building cost-cutting strategies into its primary mission to provide comprehensive energy solutions to the Defense Department and other federal agencies. The field activity is helping to do its part in meeting DLA Director Navy Vice Adm. Mark Harnitchek's broader goal for the agency to save \$10 billion over five years. DLA Energy already has programs and initiatives in place to perform its mission with more cost effectiveness in mind, officials said.

Terry Shawn and Susan Lowe are writers for DLA Energy Public Affairs.

"DLA Energy has pushed the initiative to convert from JP8 to commercial grade Jet A aviation turbine fuel in the continental U.S. as a cost-saving initiative for several years," said Lee Oppenheim, deputy director of DLA Energy Americas at San Pedro, Calif.

Working with service control points and engineering support activities, DLA Energy assisted in obtaining approval for military aircraft to unconditionally use Jet A, he explained. Air Force testing shows almost no issues with this change, and the service authorized DLA to procure Jet A for many of its locations.

DLA Energy Americas is moving forward with a plan to convert current customers in the continental U.S. using JP8 to commercial Jet A fuel. Within the DLA Energy Americas at San Pedro region, several employees foresaw this change and implemented changes within the infrastructure to accommodate Jet A use.

Robert Short, then-chief of bulk fuel distribution; Bowdoin Swenson, chief of the distribution division; and Michael Koury, chief of the quality division, began modifying defense fuel support points to accommodate commercial-style filtration



Air Force Tech. Sgt. Mark R. W. Orders-Woempler

A C-17 Globemaster III flies behind a KC-135R Stratotanker during an aerial refueling mission. DLA Energy Americas is moving forward with a plan to convert current customers in the continental U.S. using JP8 to commercial Jet-A fuel.

and providing the sites with the capability to inject military-required additives.

“With that accomplished, implementation within the region will not require long lead times to retrofit the terminals before converting to Jet A,” Oppenheim said. “Almost all Air Force weapon systems have been approved to use Jet A as an equal with the military-specification JP8.”

Army and Navy organizations are in the process of considering Jet A as an equal fuel, he said.

The Air Force, Navy and Army represent DLA Energy’s top three customers, with sales of more than \$18 million.

“The basic goal is to allow suppliers to maintain a single aviation turbine fuel stock at production and within the supply chain until DLA Energy purchases it,” Oppenheim said. “By eliminating separate production, storage and transportation for military-specification product, DLA and the warfighter will reap the benefits of eliminating suppliers’ additional expense. Jet A customers anticipate a savings, once fully implemented in three years, of 2 to 3 cents per gallon.”

According to the most recent figures available, DLA Energy had net sales of 1.25 billion gallons of JP8 within the continental United States in fiscal 2011. A 2- to 3-cent savings per gallon would realize a total savings of between \$25 million and \$37.5 million.

An Airman provides fuel for a KC-10 Extender aircraft. DLA Energy Americas’ plan to convert current customers in the continental U.S. to commercial Jet-A fuel should save customers 2 to 3 cents per gallon once fully implemented in three years.





Marine Corps Sgt. Alvin D. Parson

Natural Gas Program Proves to be Cost Effective

Another program in place that has cost effectiveness in mind is DLA Energy's Natural Gas Program.

This DLA Energy Installation Energy program helps provide coal, natural gas, electricity, renewable energy and energy-conservation measures for DoD facilities.

The program focuses on providing cost-effective, reliable energy solutions in support of the DoD mission.

"The DLA Energy Natural Gas Program was established in 1990 for the purpose of competitively acquiring direct supply natural gas for military services," DLA Energy Installation Energy Director Pam Griffith said.

The Defense Department requires that the natural gas program be cost effective and have the same degree of supply reliability as other practical alternative energy sources, Griffith said.

Since the program's inception, DLA Energy has netted participating customers more than \$850 million in cost avoidance when compared to local utility rates.

On average, this represents an 8 to 15 percent savings beyond what customers would otherwise pay their local utility, she said.

"In the past three years, we've improved our cost avoidance for customers to more than 20 percent through various process improvement initiatives aimed at ensuring our contracts were representative of best commercial practices, properly balancing risks and streamlining of our processes," she added.

The total DoD cost avoidance for fiscal 1991-2011 has exceeded \$656 million, according to DLA Energy's Fact Book.

Griffith explained that DLA Energy,

Marines troubleshoot the connectivity of a Ground Renewable Expeditionary Energy Network System being used to power an entry control point. DLA Energy helps provide coal, natural gas, electricity, renewable energy and energy-conservation measures for DoD facilities.



Marines set up a Ground Renewable Expeditionary Energy Network System that will provide power to an entry control point. DLA Energy provides cost-effective, reliable energy solutions in support of Defense Department missions.

as DoD's central procurement agency for direct supply natural gas, is actively managing multiyear contracts valued in excess of \$500 million for the supply of more than 110 million dekatherms, a form of measurement for energy.

DoD requirements, which come from about 140 military installations, represent more than 75 percent of the overall contract quantity. The remaining contracts support federal civilian agencies, including the Bureau of Prisons, NASA, and the departments of Energy, Agriculture, Homeland Security, and Health and Human Services, Griffith said.

"Inclusion of the federal civilian agencies helps balance our load profiles and improve our buying power, enabling us to negotiate better deals for our DoD customers," Griffith said.

Demand Response Programs Net Millions in Energy Savings

Another cost-savings program in DLA Energy is its Electricity Demand Response Program.

The program is designed to enable customers to contribute to energy-load reduction during times of peak demand.

"Our mission is to provide federal agencies with comprehensive energy solutions that are effective and efficient, and demand-response services go a long way in helping us meet that goal," said Larry Fratis, chief of the DLA Energy

Electricity and Renewables Division.

In exchange for an installation reducing its electricity load, the independent system operator or the utility distribution company provides financial incentives to participating customers in the form of credits to their utility bills, he explained. These credits have the effect of reducing the price the government pays for a kilowatt of electricity.

"DLA Energy's customer participation in the various demand-response programs has grown exponentially and netted customers millions of dollars in energy costs

"Our goal at DLA Energy is to ensure reliable energy supplies are delivered to our installations in the most cost-effective manner and to implement energy-reduction measures."

— Pam Griffith



Big Ideas

savings,” Fratis said.

The Electricity Demand-Response Program is a cost-saving, energy-management initiative that can help customers save money on their utility bills, Griffith said. The DLA Energy program has supported customer participation in various demand-reduction programs available across the U.S., in both regulated and de-regulated market areas, netting customers more than \$10 million in financial credits on their utility bills from the program’s inception in fiscal 2008.

Contracts Produce Savings and Reduce Environmental Impact

Energy savings performance contracts are another energy-savings vehicle used by DLA Energy.

ESPCs are alternatively financed contracts that leverage private-sector capital and expertise, allowing the government to achieve mandated energy- and water-conservation goals without

up-front capital costs, Griffith said.

She explained that under ESPCs, contractors are paid from energy cost savings that result from energy conservation measures implemented by the contractor.

The Energy Independence and Security Act of 2007 and Executive Order 13423 set new federal energy intensity goals that are implemented by ESPCs, she said.

EISA and E.O. 13423 require DoD to cut energy use, compared to 2003, by 3 percent per year from 2007 to 2015, according to information available on the Department of Energy’s website.

Defense Reform Initiative Directive 21, dated January 1998, directed DLA to assist the military services in using tools such as ESPC contracts to decrease energy demand.

DLA Energy has been procuring and administering ESPC contracts since 1999 and has awarded contracts with a total value of \$430 million, Griffith said.

Part of DoD’s core strategy when it comes to facility energy is to reduce demand through energy efficiency and conservation measures, Griffith said. She added that officials have seen a significant increase in customer energy conservation requirements over the past 12 months, particularly given the president’s directive to achieve \$2 billion in investment in these efforts by December 2013, Griffith said.

Facility energy is important to DoD when it comes to mission assurance, cost and environmental impact, Griffith said.

“Our goal at DLA Energy is to ensure reliable energy supplies are delivered to our installations in the most cost-effective manner and to implement energy-reduction measures,” she added.

The cost savings realized under DLA Energy programs can then be reallocated by customers to support mission priorities, and the energy savings help reduce the department’s impact on the environment, she said. ✪



Air Force Senior Airman Willard E. Grande II

Each day, this Eielson Air Force Base, Alaska, locomotive transports up to 1,000 tons of coal to the power plant that provides the base with its sole source of heat and power. Coal is one of the resources the DLA Energy Installation Energy program helps provide for DoD facilities.



Marine Cpl. Calvin Hartley, an automotive organizational mechanic with 2nd Maintenance Battalion, 2nd Marine Logistics Group, works on a Humvee engine. Strategic Network Optimization will reduce the amount of warehouse space needed to store consumable items and depot-level repairables while ensuring warfighters have the supplies and parts they need.

Faster, Smaller

Story by Jacob Boyer

As Defense Secretary Leon Panetta's efficiency initiatives and Defense Logistics Agency Director Navy Vice. Adm. Mark Harnitchek's "Big Ideas" push the agency to find ways to provide superior support at lower costs, a joint program between DLA, U.S. Transportation Command and the military services is looking at ways to make better use of the storage nodes and transportation lanes that comprise the Defense Department's distribution network.

Strategic Network Optimization,

an Office of the Secretary of Defense program being led by DLA, is taking in data from across DoD's logistics network to find where and in what amounts consumable items – items that aren't reused like ammunition, paint, fuel and bandages – and depot-level repairables – items like vehicle transmissions that can be repaired and refit and then put back into service – should be kept around the globe, said Navy Lt. Cmdr. Manuel Ganuza, operations research lead on the SNO team. The program's goal is to

make more efficient use of the network's transportation and storage capabilities to minimize inventory requirements.

"What SNO is doing in essence is looking to reduce total supply-chain costs while increasing warfighter readiness related to supply," Ganuza said. "We want to find that balance between being effective and being efficient."

Another effect of SNO will be reducing the number of warehouses DoD uses to store its inventories, said Bret Nichols, the program's business manager.



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“We’re looking at eliminating warehouses where it makes sense,” he said. “We’re looking at individual buildings. In the continental United States, there are 256 distribution sites with significant capacity. We’re trying to whittle down that warehouse capacity where appropriate.”

Ganuza said budget constraints and the need to transform the supply chain to support a variety of future operations, from contingency to humanitarian assistance, are the compelling reasons for SNO.

Lynne Allen, SNO’s program manager, said the program is also looking to reduce redundancies brought about by DLA, USTRANSCOM and the services performing the same or similar functions.

“There is a lot of duplication across DoD between the services and DLA and a lot of redundancy,” she said. “That’s part of the transformation as well: to

consolidate and reduce redundancies. That’s sort of the underlying foundation that gets us where we need to be to support the current and future environment. In view of the coming budget constraints, it would make sense to leverage what we have because we can’t afford to go out and make the investments in inventory that we’re used to making.”

In order to do that, SNO is planning and implementing in three phases. Phase 1 is transportation-focused and configures the supply network, including the number and location of strategic distribution depots, the transportation lanes used to get supplies where they need to go, and the anticipated flow of materials.

“In Phase 2, we looked at DoD-wide inventory. Many will say we have too much stuff across DoD,” he said. “We may be short of something we do need but, in totality, we have too much stuff.

The goal is to get rid of \$10 billion of material across all of DoD, not just DLA.”

Nichols said that in addition to reducing the investments required for a larger inventory, Phase 2 will also eliminate other costs involved in keeping that inventory.

“There are also carrying costs to keeping things in our inventory,” he said. “There’s spoilage, obsolescence, handling fees and more. Eventually, if you keep something on the shelf long enough, you don’t need it any more. That piece of equipment is gone from our inventory, we don’t service it any more, we don’t issue it anymore, but there are still warehouses full of it.”

That leads directly into Phase 3, in which the Defense Department will reduce the excess warehouse capacity that results from the reduction of inventory, Nichols said.

“Once you clear the attic out, our model has allowed us to equate the value of those items in cubic feet and square feet,” he said. “We take that out and that’s how much warehouse space we anticipate being able to eliminate.”

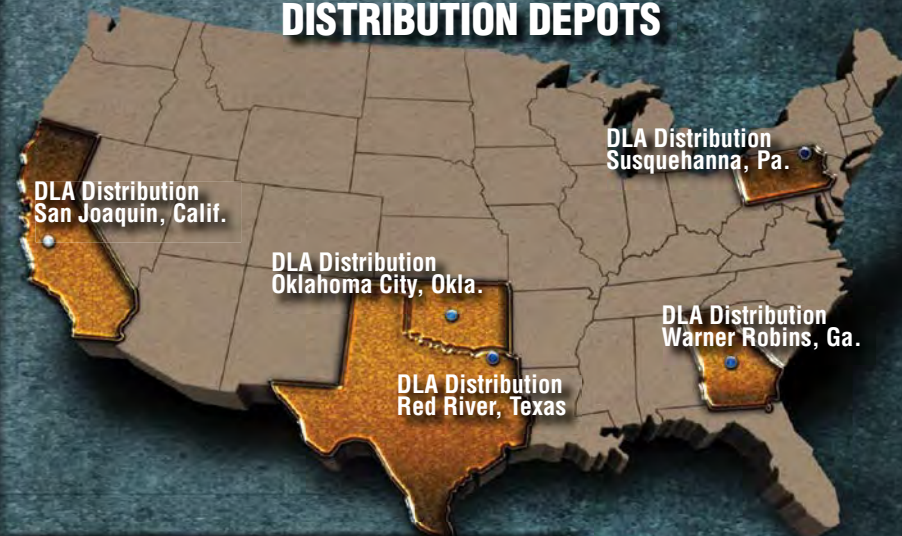
The order of the initial phases is purposeful, Ganuza said.

“Phase I basically reconfigures your network. It focuses on items that are moving within the network,” he said. “Once you’ve established the network, how you’ll use it and the conditions under which you’ll be operating, then you look at the inventory portion. That’s where we have things in excess. Once you get the entire picture of the inventory with the network reconfigured and operating the way you want it to, you can look at infrastructure. Then you scale the infrastructure to the new demand and functions you’re going to assign to a specific site.”

Ganuza said that while a net decrease in warehouse space is anticipated, some individual sites may see the opposite due to various causes and missions.

“Some sites might need an increase,

STRATEGIC NETWORK OPTIMIZATION DISTRIBUTION DEPOTS



Selected based on their proximity to customers, these depots provide optimal transportation costs while still meeting customers’ logistics response times.



and others will be reduced significantly,” he said. “You still need to provide support to industrial activities. You still need a storefront. Someone still needs to manage it.”

These three phases are anticipated to reap more than \$7 billion in network-, inventory- and infrastructure-related savings across the Defense Department from fiscal 2014 to fiscal 2018, Nichols said. DLA itself is expected to save more than \$76 million from Phase 1 alone. Savings to individual partners for phases 2 and 3 haven’t been calculated yet.

“By optimizing the network, we’re able to use lower-cost forms of transportation,” he said. “We can go surface versus air. There’s a huge difference in the cost of moving something by truck or boat versus moving it by plane.”

The optimized network will also allow planners to send consolidated shipments to customers, Ganuza said. Regular shipping schedules, with many shipments going to multiple customers, will allow for reduced transportation costs and inventories.

“Among all the services, we’re consolidating all the shipments,” he said.

SNO’s initial three phases are anticipated to reap more than \$7 billion in network-, inventory- and infrastructure-related savings across DoD from fiscal 2014 to fiscal 2018.

“With SNO, you’re setting the schedule of dedicated trucks to be more effective. Now you have a high volume of material moving through a lane to customers that are near each other.”

“It has an impact on inventory,” Ganuza continued. “If my analysis tells me I’m going to hit you every two weeks with a truck, you might estimate you need more on hand. That goes hand in hand with phases 1 and 2. We can assess the responsiveness of the supply chain and the network to the consumer, which impacts inventory. Now that we can assess that responsiveness, those parameters the services use to calculate inventory levels will have impacts on retail operations. They tell us what they need. If we can service them every day, they need less.”

The SNO team is using a modeling and simulation program called Supply Chain Guru to help it decide how to most efficiently manage the worldwide supply network, Allen said. The program allows DLA, USTRANSCOM and the services to input data on infrastructure, inventory and transportation into one database

FEMA workers arrive at Fort Bragg, N.C., ahead of Hurricane Irene in 2011. As Strategic Network Optimization moves into its next phases, logistical support to humanitarian assistance and disaster relief operations will be added.

from which they can assess individual changes to the network, she said.

“That’s one of the more unique things about what we’ve done,” Allen said. “We’ve gotten actual cost data from each of [the partners], put them together, and done some optimization and modeling. We’re going to simulate the network to make sure. We’re going to test it to make sure the new network can respond with current or improved performance. This will validate that we won’t degrade any response times. We’re doing that now.”

Ganuza said the team expected initial results from the simulations in early August, but that the analysis of those results would take time.

Phases 1, 2 and 3 of SNO will reach implementation in 2014, 2015 and 2016, respectively. Further phases are already beginning, Allen said. Phases 4, 5 and 6 will look into how to use the network to support geographic combatant commanders and humanitarian assistance and disaster response operations, as well as add classes of supply beyond repair parts. 🌟



Big Ideas





Decreasing Material Costs

Story by Beth Reece

Acquisition experts throughout the Defense Logistics Agency's nine supply chains are increasing the use of traditional contracting models and adopting several new procurement tools to reduce customers' material costs.

"We're doing more of what we already do, such as long-term contracts, where we have a longer relationship with contractors and they can therefore make investments to drive down costs. We're also looking at some new and innovative ideas that will allow us to take better advantage of commercial practices, for example," DLA Acquisition Deputy Director Matt Beebe said.

Agency officials expect to save about \$8.6 billion in material costs by fiscal 2018. Material costs represent the highest portion of DLA's budget, Beebe added. Of about \$46 billion the agency spent in

A Navy Knighthawk helicopter lifts a pallet of supplies from the deck of the replenishment oiler USNS Yukon. DLA will use a variety of acquisition tools, from long-term contracts to reverse auctions, to decrease the cost of such supplies.

— Photo by Navy Petty Officer 3rd Class Chase A. Corbin

fiscal 2011, about \$40 billion went toward such material as food, fuel and repair parts for the military services.

DLA Troop Support will rely on reverse auctions to get savings in such areas as pharmaceuticals, construction equipment, and clothing and textiles, said Chris Cosfol, the activity's deputy director of procurement process support.

Unlike traditional bidding, where suppliers don't know who is competing for a contract or how much they're bidding, reverse auctions allow suppliers to see what others are bidding, thereby encouraging them to propose a lower figure.

While most pharmaceutical prices for the Defense Department are set by law and aren't likely to change, Cosfol said, the cost of delivering them could decrease dramatically as a result of reverse auctioning. Pharmaceutical delivery is typically done as part of the vendor's commercial distribution network, so the vendor offers DLA a discount in the form of what's called a negative distribution fee.

"If we get a negative distribution fee of 5 percent and the cost is \$100, for example, then the vendor actually charges



Big Ideas

us just \$95," Cosfol said.

The activity is currently soliciting bids for a national pharmaceutical prime vendor contract that will become effective in March 2013. After offers were received and evaluated for technical capability and item pricing, DLA Troop Support sought further savings by conducting a reverse auction on just the negative distribution fee, then reevaluated offers to make an award.

Cosfol said officials expected significant savings. "We'll receive what we expect to be a higher negative

Navy Petty Officer 2nd Class Pablo Hinojosa moves supplies through a hangar bay during a replenishment at sea aboard the aircraft carrier USS George H.W. Bush. DLA Aviation is expanding the use of long-term contracts to shorten administrative lead time and increase the availability of supplies for customers around the world.

distribution fee over the five-year span of the contract," he continued.

In clothing and textiles, acquisition experts will conduct a "should-cost" analysis of overhead costs. Several items in that supply chain are mandatory-source items that come from Ability One, which supports the National Industries for the Blind and National Industries for the Severely Handicapped.

"We've had some overhead-rate issues, so we're hoping a should-cost analysis will bolster our position as we negotiate with workshops to reduce those costs," Cosfol said.

While DLA Troop Support already uses long-term contracts to procure more than 90 percent of its items, activities like DLA Aviation are working to greatly increase use of the tool. A new

long-term contracting development and preservation section was recently established at DLA Aviation.

"This will allow us to reduce the amount of routine contract actions, shorten administrative lead-time, increase supply availability and decrease potential supply excess, all of which contribute to cost reductions," said Sonja Parham, a sourcing strategy specialist.

Decreasing sole-source items that are manufactured by just one vendor for reasons other than U.S. propriety rights to technical data will also increase competition and reduce costs in several supply chains, Beebe added. The effort would require reverse engineering to generate product data that can be made available to other vendors willing to compete for business.



Navy Seaman Jessica Echert

“This can be a laborious process, but you have to target your efforts,” Beebe said. “If I’m only going to buy the item once every three years, it’s probably not worth it. But if it’s something I buy regularly or something I’m paying a premium for, then it’s definitely an area of opportunity.”

Engineers at DLA Aviation are using the Value Engineering Sourcing Support Tool to target cases where multiple suppliers are capable of making sole-source items but aren’t bidding for contracts because the items have unstable demand patterns and are technically complex.

“New suppliers tend to avoid these items, but the warfighter still needs them at an affordable price. We developed VESST to allow us to share some of the expense associated with gaining approval as a source of supply with a contractor so that the risk is reduced to an acceptable level,” said Ralph Newlon, deputy director of the DLA Aviation Engineering Division.

Military engineering activities that have sustainment oversight and design control over items that DLA buys are currently reviewing source approval requests for five items, including three separate support assemblies for the TF33 airplane engine.

“Potential procurement savings as a result of these efforts are estimated to be \$186,000 per year,” Newlon said, adding that production lead times will also decrease significantly, with the lead time for one of those five items dropping from 660 days to 180.

Working with new suppliers to decrease sole-source items and the use of reserve auctions are expected to bring in the biggest chunk of savings for DLA Land and Maritime, said Barbara Robertson, deputy director for business process support. Another initiative will

Air Force Staff Sgt. Alesia Coosic



eliminate the requirement for expensive packaging in cases where commercial packaging is adequate. In the past, the services have placed special packaging requirements on material to protect it during long-term storage.

“But what we’ve found is that most of our items are consumed pretty quickly; as soon as they hit the depot, they’re shipped out immediately because a customer needs it,” Robertson said.

Relying on commercial companies to manage supplies that are easily obtainable, such as light bulbs and bolts, is another way DLA expects to achieve lower material costs.

“We manage a lot of inventory that could be purchased at Lowe’s or Home Depot,” DLA Director Navy Vice Adm. Mark Harnitchek told defense reporters in June. “Why spend \$11 to manage a bag of nuts that costs 75 cents” when industry can provide it on demand.

Navy Petty Officer 3rd Class Eric Crump (right) assists Navy Lt. Laura Modafferi with packing bins of medication in the pharmacy aboard the hospital ship USNS Comfort. DLA Troop Support is working on a reverse auction that will reduce the cost of pharmaceutical delivery.

Other innovative ideas include the use of a new contracting model called performance-based logistics, through which the agency will combine multiple service contracts for similar items into a single PBL arrangement that supports all the services. Performance-based logistics gives contractors partial responsibility for material readiness and is expected to save DoD 15 to 20 percent, said Navy Capt. John Spicer, who oversees DLA’s PBL Program Office.

In a May 9 blog post, Harnitchek described the agency’s material reduction goals as an effort that nearly all DLA employees are directly or indirectly involved in.

“This is all about delivering world-class logistics support at best value,” he said. “I have been in the supply chain/military log business a long time, and nobody does more of it than DLA, and nobody does it better. Now we must take it up another notch.” 🌟

Engineers at DLA Aviation are using the Value Engineering Sourcing Support Tool to target cases where multiple suppliers are capable of making sole-source items but aren’t bidding for contracts.

A Conversation with . . .

Army Command Sgt.

DLA's Senior Enlisted Leader Talks About His Extensive Military Career, His Time at DLA and His Prospects for the Future.

You've been a Soldier working in logistics for more than 36 years. What are some of the biggest changes you've seen during your career?

Really, the more things change, the more they stay the same. When I entered the Army in 1975, we were required to deploy with our unit basic and prescribed loads. A basic load is designated quantities of specific types of supplies that allow a unit to initiate its combat operations. We also deployed with our motor pool maintenance section that was required to carry its prescribed load list. Prescribed loads are quantities of maintenance-significant supplies and repair parts to support the unit's maintenance program. Keep in mind, the unit's basic and prescribed loads must be able to move into combat using organic transportation in a single lift. We also identified a field ordering officer who would acquire local supplies when needed.

The requirement to deploy with the unit's loads still holds true today. However, we have seen many of our rotational units fall in on left-behind equipment in operational theaters. Since units fall in on equipment left by previous units, a majority of our sustainment functions have been accomplished by the Logistics Civil Augmentation Program, known as LOGCAP. Many units deploy with little or no basic or prescribed loads. LOGCAP plays a major role in support



Army Command Sgt. Maj. Otis Cuffee

of our warriors. Furthermore, this program frees up human resources to be employed elsewhere.

Strategically, very little has changed except that strategic planners are side by side on the battlefield with supported units. As far as supplying and re-supplying, we are doing business much the same as in the past. During the Civil War, leaders used the road and rail network to move supplies. During World War II, they used road, rail and air assets to get supplies where needed. Today, we still use road, rail and air assets to deliver supplies and provide services, but we also use many types of technology to be more efficient in delivering those supplies and services.

One thing that has changed is the tactical abilities of our logistics service members. Early on in my career, combat service support organizations delivered goods to their supported units and combat arms units went along to protect them. However, during OEF and OIF this was not the case. CSS units had to protect themselves both heading out on deliveries and returning to home base. Troops in these organizations had to learn how to be gunners, react to attacks, defend their position, call in an emergency medical evacuation and evade improvised explosive devices all while under attack. And they've more than stepped up to the challenge.

The mission hasn't changed much, just the methods we use to get warfighters what they need, when they need it and in the right amounts.

In what ways did you interact with DLA over your career before becoming its senior enlisted leader?

The majority of my experiences in logistics have come from the school of hard knocks and my various assignments at the company, battalion, brigade, division and corps level support offices. Frankly, I didn't know who or what the Defense Logistics Agency was. Most of my interactions were with the supply support activities organic to units and the inventory control points organic to the military services. However, there were a few item managers that I would call on

Maj. Otis Cuffee

for status of requisitions. These item managers were identified by their routing identifier code. Some of these codes were for DLA items from Columbus, Ohio, and Richmond, Va.

During Operation Enduring Freedom, a DLA representative was co-located with my headquarters in Uzbekistan. This representative was responsible for tracking and providing status on DLA-managed repair parts. We also had a representative from the Defense Reutilization and Marketing Office, now known as DLA Disposition Services, who provided information on disposal cost and services.

Over the years, I have picked up knowledge and experience on the subject of end-to-end supply chain management through hands-on work and reading a lot of books. My time at an Army command gave me the strategic view of logistics, acquisition and the contracting process. However, nothing really prepares you for serving at DLA other than a previous assignment at DLA.

DLA is a very large organization with a huge mission. It provides everything service members need head to toe, and it supplies more than 80 percent of the military's spare parts and nearly 100 percent of the services' rations. This includes the supply cycle from acquisition to distribution and disposal. DLA supports more than 2,178 weapons systems, manages nine supply chains, and processes an average of 114,200 requisitions and 11,000 contract actions a day. DLA operates in 48 states and 28 countries to support our national defense with critical materials management.

How big of an impact has the global war on terrorism had on both the logistics career field and DLA?

Gen. George S. Patton once said, "Never tell people how to do things. Tell them what to do and they will surprise you with their ingenuity."

Logisticians' skill sets have been challenged beyond their limits, but they have adjusted and continue to prevail. As a result of the changing battlefield and threat, the majority of our logisticians are now multifunctional. Our officers, warrant officers, noncommissioned officers, civil servants and contracted employees are being exposed to multifunctional, multinational and joint logistics experiences earlier in their careers, often while in combat. Consequentially, our logistics organizations require smart, competent and confident leaders who have the training and experience to operate effectively as part of a joint or multinational force.

DLA has provided outstanding support over the past several years. However, it has not been easy. DLA has worked through sustaining the forces on two fronts while simultaneously supporting the other commands, depots throughout the world, the Department of State and nongovernmental agencies. And we have successfully done it with fewer resources.

DLA has been challenged to get supplies in and around Afghanistan, especially when the Pakistan ground lines of communications road network closed. The bigger challenge now is helping commanders get equipment out of Afghanistan, particularly since

Afghanistan is a land-locked country and flying everything is very expensive.

Can you share one moment or time in your career when you were happiest to be doing what you were doing?

I, like all military members, have trained and rehearsed for that moment to be called to duty. I have been called on for several deployments, but Operation Enduring Freedom and Operation Iraqi Freedom really allowed me to showcase what I was trained to do. Supplying and sustaining units on the battlefield, on the move and on time showed that sustainers are a force multiplier. I was the happiest when the units I supported had everything they needed and wanted for nothing. The reward of seeing the smiles of our customers after delivering subsistence, fuel, ammo and water was exciting. It also felt great to receive accolades from the leadership on mission complete and a job well done. However, I am reminded that the work isn't over until the entire mission is complete.

What was the toughest part of your career?

Other than exiting an aircraft while in flight in Afghanistan and Iraq?! You really have to know your business, because you will be challenged beyond your imagination. You will have to know more than logistics to supply and sustain the forces in different environments.

A Conversation with . . .

The mountainous terrain and lack of road infrastructure in Afghanistan is the toughest challenge. You just can't get to the forward operating bases or contingency operating bases or combat outposts without flying or air dropping supplies.

In Iraq, we had to deal with improvised explosive devices and ambushes, as well as sand and dust storms. During the dust storms, nothing moves – no flying or driving. You couldn't see your hand, so we had to have a plan, a backup plan and a backup backup plan to re-supply. Man, what a challenge.

In one example, my team was tasked to support an offensive operation in two locations. We needed to make one drop, return to home station to reload and make the second drop. In anticipation of bad weather, we attempted delivering fuel and supplies just outside Baghdad to the first site when we were hit with an IED. We recovered and made it to the destination of delivery only to find it was under attack. After we remained there for three hours, the main roads in that sector went black, which meant no road movement. The second team on tap had not made it back to home base to make the next supply run. The third team was resting from doing back-to-back drops in the northern sector. Bad weather had moved in earlier than expected, so nothing was flying except medical evacuation helicopters. This is what I mean by being challenged and bringing your "A game," because it was tough operating in a climate of uncertainties.

If you could give a junior enlisted service member one piece of advice, what would it be?

Learn all that you can about your craft and hone your skills; you too

will be called to duty. Your leaders, subordinates and teammates expect you to be the expert. Don't worry about filling someone else's shoes, just fill your own. When you assume the responsibility of leadership, many will want you to be as good as or better than your predecessor. Seek out those who went before you for their experience and seek a mentor. We all need someone who has gone this way before, someone who understands the inner working of the organization, who can guide and assist in your development and growth. Master your tactical and survival skills. This is not a movement through friendly neighborhoods, but navigating rough terrain and hostile environments. Remember, you are a professional of arms first and a technician second. If you cannot survive, you cannot supply. It doesn't matter if you're supplying goods and services or reinforcing the front line with your team. Most importantly, always do your best to do what is right.

What do you see as DLA's next steps in the years to come?

DLA has always been America's combat logistics support agency. It provides our armed services, other federal agencies, and combined and allied forces with the full spectrum of logistics, acquisition and technical services. Its enduring goals of Warfighter Support, Stewardship Excellence and Workforce Development have always kept this agency at the tip of the spear. So, I see DLA taking on more of the military services' logistics functions while reducing costs. If you look back at DLA's history, it has assumed these functions when necessary. DLA inserts best business practices and invests in technology to get organizations where they need to be to support their operations. That process has reduced cost and produced the same

level support or better for the customers.

The DLA director's current initiative is "10-in-5": reduce costs by \$10 billion over the next five years starting in fiscal 2014. That will go a long way in reducing the agency's and the armed services' budget requirements.

What's next for you?

For 37 years I have seen change take place up close. I've seen changes like Base Realignment and Closure, force structure alignment, protective clothing and uniform changes. All were done for the right reason, which is to care for our warriors and protect the American way of life. So, it's my time to change from the uniform of a Soldier to that of a civil servant. I would like the opportunity to serve within the Department of Defense in some capacity continuing to assist warfighters. Of course, none of this will happen until I take a long vacation with my family.

My thoughts to share: The cost of freedom is very high, sometimes calling upon what Abraham Lincoln referred to as "the last full measure of devotion."

No one knows this more than the citizens of each generation who have seen beyond the haze of indifference and who acted to serve a cause greater than themselves. The brave men and women of our civil service workforce who manage, provide and repair equipment to keep our armed forces protected with the latest technology and engineering designs are one of the most potent weapons in war and one of our nation's resources, without a doubt. These civil servants, teammates of the military, working in domestic locations or deployed overseas, provide exceptional support to our forces.

Finally, may God bless our military services and DLA, and God bless America. 🇺🇸



DLA Document Services Partners with AbilityOne Program

Defense Logistics Agency Document Services partnered with the AbilityOne Program to award a desktop printer toner contract that will save Department of Defense users time and money, create jobs for people with disabilities, and comply with the Javits-Wagner-O'Day Act.

In accordance with the JWOD Act, the U.S. AbilityOne Commission — the operating name for the Committee for Purchase From People Who Are Blind or Severely Disabled — is the federal agency authorized to administer the AbilityOne Program. The commission designated National Industries for the Blind and NISH to assist with the program implementation. These central nonprofit agencies create employment opportunities for people who are blind or have other significant disabilities. More than 600 nonprofit agencies across the nation associated with either NIB or NISH produce products and services

under the AbilityOne Program, John Coney, NIB Business Development director, said.

In the past, recycled printer toner available through the AbilityOne Program was substandard, motivating many DoD users to write waivers to the JWOD Act and proceed with numerous small purchases. Working with DLA Acquisition, DLA Document Services developed a new contracting approach that streamlines the acquisition process and allows DoD users to take advantage of their collective buying power, while remaining compliant with the JWOD Act mandate, Steve Sherman, DLA Document Services director, said.

AbilityOne now acquires new toner cartridges through Alabama Industries for the Blind. AIB provides training and employment opportunities for people who are blind and/or deaf. These employees produce more than 100 different items, including a new patented

toner that carries an unconditional lifetime warranty. The new toner was independently tested, and the results indicated significantly higher page yields and improved print quality as compared to products from other equipment manufacturers. Because of higher toner content and yields, less than half as many cartridges need to be manufactured and shipped. All components are 100 percent recyclable, and used cartridges can be easily returned with an enclosed return label. In addition, the toner complies with the Environmental Protection Agency's Comprehensive Procurement Guidelines for Resource Conservation, Coney said.

With this new toner available, DLA Document Services and AbilityOne partnered to award a contract that covers the most prevalent desktop printer toner vendors in DoD, Hewlett-Packard and Lexmark, at an average savings of 25 percent compared to the price for manufacturers' products. As other vendors' newly manufactured toners become available through AbilityOne, they will be added to the contract, Chuck McNelley, DLA Document Services chief contracting officer, said.

To streamline the ordering process, the new toner contract will be available for online ordering and payment via Government Purchase Card through DoD EMALL, <https://dod-email.dla.mil>.

— Lisa Hake,
DLA Document Services Public Affairs

Did You Know?

Headquarters DLA Europe was established in Stuttgart, West Germany, by then-DLA Director Navy Vice Adm. E.A. Grinstead on Jan. 24, 1983. DLA support of U.S. forces in Europe included supplying food, clothing, fuel and medical material as well as consumable hardware items and bulk petroleum stocks. One advantage to establishing an office in Europe was it strengthened DLA participation in war and contingency planning and permitted more comprehensive participation in military exercises.

Improving support for components such as aircraft engines and tires, the Defense Logistics Agency is working to combine multiple service contracts for similar items into a single purchasing arrangement that supports all the services through . . .

Performance-Based Logistics

Story by Beth Reece

The more often a part breaks, the more the supplier's cash register rings. This used to be the norm under traditional contract agreements between the Defense Department and commercial industry. But a new business model that gives contractors partial responsibility for material readiness is expected to yield a 15 to 20 percent savings for DoD without sacrificing industry's profit.

The military services are already using the model, called performance-based logistics, to improve support for such components as aircraft engines and tires. Now, the Defense Logistics Agency is working to combine multiple service contracts for similar items into a single PBL arrangement that supports all the services.

"If the services have their own PBLs, then they still have separate supply chains, separate warehouses and separate repair

processes. DLA has the opportunity to bring all of these together and save the services a great deal of money," said Gerry Tonoff, lead strategist for DLA Acquisition's PBL Program Office.

Air Force Airman 1st Class Dwayne Quesenberry (foreground) operates an MJ-1 jammer as Air Force Airman 1st Class Bryan Martin and Air Force Staff Sgt. Jason Logue guide a training missile from an F-16 Fighting Falcon aircraft. Performance-based logistics could help improve support for such military equipment.



Air Force Tech. Sgt. Caycee Cook

Military mechanics such as Navy Petty Officer 2nd Class Mark Gill (left) and Navy Seaman Jon Blankenship will be able to turn around equipment repairs faster with performance-based logistics. The arrangement gives contractors partial responsibility for material readiness while 50 percent of the repair work remains at military maintenance facilities.

Under traditional contract structures, the military services are responsible for determining the type and quantity of parts they need, as well as making repairs, while the contractors only have to supply parts. PBL contracts differ by putting contractors in charge of knowing what parts are needed for the types of repair work.

“The inherent incentive for the supplier is that if they can make equipment more reliable so that it spends less time at the shop for repairs, their costs will go down and their profit margin will increase. The military has already seen a rise in readiness rates for equipment under these types of contracts,” said Navy Capt. John Spicer, who oversees DLA’s PBL Program Office.

Performance-based logistics contracts comply with legislation mandating that at least 50 percent of repair work is done at military maintenance facilities.

“We’re not pulling work out of our depots. Most of the work is done through what we call a public-private partnership, and there are various versions of that, but the most successful PBLs have been done where the depot is essentially a subcontractor to the industry partner,” Tonoff said.

Despite an initial fear of job losses, mechanics at military depots agree the arrangement leads to far fewer backorders and quicker turnaround times, Spicer added.

“Industry will, in many cases, have our artisans overhaul an entire unit from front to back because they know it will increase reliability,” he said. “The artisans are very happy because they’re getting to do repairs the way they always wanted to.”



Tonoff and Spicer have advocated performance-based logistics since the late 1990s, when they served on a team at Naval Inventory Control Point Philadelphia that established one of the military's first PBL contracts. The contract was designed to increase the availability of auxiliary power units, self-contained generators that are used to start aircraft engines. The readiness rate for the units should have been at 85 percent, but had dropped to 60 percent, and in some cases even lower, Tonoff said.

The Navy went to commercial airlines in search of a solution and noticed Southwest Airlines' maintenance service agreement with commercial industry worked well for both the airline and its suppliers. The agreement entailed Southwest paying a fixed amount of money per flight hour with the expectation that repair parts would always be available when needed.

After adjusting the model slightly so it applied to military logistics, the Navy awarded a PBL contract for logistics support of its auxiliary power units to Honeywell in June 2000.

"Honeywell increased the reliability and availability of APUs for less than we previously paid, and repair time quickly dropped to about half of what it used to be," Spicer said.

DLA is currently working to combine separate service contracts for Honeywell APUs, wheels, brakes and other



Air Force Master Sgt. William Greer

components into one PBL contract. The effort is expected to save DoD about 20 percent of what it's now paying, he added.

The agency is also looking for similar savings for the T700 aircraft engine used in several helicopters.

"There are nine contracts among the services to support that one aircraft engine, plus some DLA contracts. That sounds like someone put together a bunch of contracts without thinking it through, but nobody did it for nefarious reasons. Somebody saw a problem and put a contract in place to solve it," Spicer said. "As long as there's plenty of money to go around, industry is happy to do business that way. But now, they see the budget is coming down and they need to partner with us in creating efficiencies."

DLA officials expect to soon finish training employees at primary-level field activities on the benefits of PBL contracts and the steps required to create them. But the shift to a joint solution will require

One of the Navy's first performance-based contracts was awarded to Honeywell for support of auxiliary power units such as the one Air Force Senior Airman David Holley is replacing in an E-3 Sentry airborne warning and control system aircraft in Southwest Asia.

additional collaboration with the services, DLA Troop Support Deputy Commander Richard Ellis said.

Like Tonoff and Spicer, Ellis helped create PBLs for Navy Inventory Control Point Philadelphia during the end of his active-duty career.

"The direction back then was for us to work these PBLs across the services, but we had some real challenges because each service approached PBLs from a different perspective," he said.

While the Air Force wanted to maintain control of what got repaired and when, for example, the Navy wanted the contractor to make those decisions so that if the contractor failed to meet requirements the service wouldn't be at fault, he continued.

Finding a common solution for all of the services is more important now than ever, Ellis said, "especially in this budget-constrained environment we're in."

Transitioning to a joint-service, performance-based logistics support strategy will require a culture change for DLA employees and customers alike, Tonoff agreed.

"But we know it's a successful business model," he said, "and we've seen the proof that it benefits both DoD and industry." 🌱

DLA is working to combine nine service contracts for this T700 aircraft engine into a single contract that supports all the services.



Roy Heitman

Engineering Savings

Story by Amanda Neumann

The federal government is one savvy shopper – minus the coupon clipping. Just like consumers shopping for the lowest price in day-to-day life, the government uses value management, a term generally used interchangeably with value engineering, to shop around, comparing prices on materials and services to find the best value. DLA value-management experts say the goal is to find better performance at a lower cost.

As described in a program brochure, the VM program is designed to save the government money by analyzing the requirements of all systems, equipment, facilities, procedures and supplies for the lowest total cost. These cost-saving initiatives include lower acquisition or logistics costs, resulting in improved reliability and maintainability, a reduction in production lead times, and improved supply availability. Other benefits include easy-to-obtain repairs and replacements, the elimination of unnecessary materials and the reusing of materials.

Developed more than 50 years ago, VM was tailored to address savings with weapons systems or items defined by military specifications. Today, VM encompasses more than just that.

“Value engineering considers changes in the design and function to ensure the product we’re providing gives us the lowest life cycle costs for our customer,” said Ralph Newlon, chief of DLA Aviation’s Engineering and Technology Division. “Let’s say you have a part that you put on an airplane. Value engineering would



Money Matters



Navy Petty Officer 1st Class Joseph Seavey

say: 'If I make that part last three times as long, we don't have to buy it as often and there's less repair and maintenance involved.' The key is to not reduce functionality and quality in the process. It then frees up more labor dollars to apply toward equipment."

For DLA in general, value management goes beyond engineering, Newlon said, adding that the cost savings can be substantial.

"We're procuring those items, whether they're repair parts or end items," he said, noting that DLA Aviation tends to "focus on value management, on lowering the acquisition costs, not necessarily changing the design or function of the item."

And the government isn't the only one cutting costs, said Dan Krist, chief of DLA Land and Maritime's Pricing and Sourcing Office.

"We can buy more items with the dollars we have," he said. "We try to reduce the actual cost to the customer because their budgets are cut, too."

A drop in price on an individual part can make a big difference in the government's overall budget, Newlon said.

"One of our projects involved a pressure switch for [an air-cushioned landing craft]. We found in our procurement history that the company supplying us the part was not the manufacturer. We contacted the actual manufacturer directly and worked with them to supply directly to us. We ended up saving over \$611,000 on our last order alone," he said.

Finding out what parts are eligible to participate in value engineering takes a team of experts.

"We typically look at sole-source items, because when we develop competition we save 30-40 percent of the cost of the item," Krist said. "We're buying it from the original equipment manufacturer so the higher the quantity we buy, the better business case it gives us to put resources into it to save money."

One method to combat overpricing is known as "replenishment parts purchase

An air-cushioned landing craft inflates as it prepares to return to the amphibious assault ship USS Bonhomme Richard. DLA's value engineering team worked with a manufacturer to reduce the cost of a pressure switch for the craft.

or borrow," through which contractors can reverse engineer items, a long-term process that can be time consuming but valuable, Newlon said.

"Prospective contractors can come in and see the part or they can go on our virtual site and buy an example of the part from us and reverse engineer it," Newlon said. "They will disassemble the item, take all the critical measurements and create a drawing based on the sample part. We review it, then get approval to procure the part. Then once we have two or more sources for that item, it drives the price down."

When reverse engineering isn't an option but a new source is still needed, DLA Aviation has an alternative process it

Although reverse-engineering parts may work for some divisions within DLA, the remanufacturing of parts doesn't lend itself well to DLA's Troop Support supply chains.

— Neil Kovnat

can use to drive down prices.

“When we see those items not getting any interest from contractors, maybe because it’s too expensive to reverse engineer the item, we use the Value Engineering and Sourcing Support Tool, called VESST,” Newlon said. “We have a standing contract where we pay the research cost. The lowest bidder will get that award. That contractor then becomes an approved source. What was originally a sole source situation then becomes a competition and again drives the price down.”

Although reverse engineering parts may work for some divisions within DLA, the remanufacturing of parts doesn’t lend itself well to DLA Troop Support supply chains, said Neil Kovnat, director of the Command Support Office and also DLA Troop Support’s value management program manager.

“We rely on commercial items, which is different than other supply chains,” he said. “Reverse engineering doesn’t embrace the nature of our supply chains. We need something more applicable to commercial items. Now with the broader acceptance of value management, it allows the cross savings. It helps that we buy in bulk. To us, it’s more than end-item improvements; it’s increasing competition, using reverse auctions and making process improvements from which savings are complementary.”

Competition is the government’s best friend, Kovnat said. Once sole-sourced items are available from more than one company, savings are instant.

“Our construction and equipment staff worked with Northrup Grumman on the sourcing of air duct cooling coils used in F-16s,” he said. “During contract discussions, we discovered some of the subcomponents could be competed instead of going to one supplier. Once we

moved to compete the items, the contract price went from \$10 million to \$7 million and we saved over \$3 million.”

Still, value engineering is not without its hurdles, as time is a major opponent, Newlon said.

“Our biggest obstacle can be the amount of time it takes to complete projects,” he said. “Almost always, those trying to procure the items just can’t wait. We’ve done a lot of work to speed up our processes, but it can still take months,

even a year, especially with reverse engineering, to create a new source.”

Cost-savings to the government, part of DLA Director Navy Vice Adm. Mark Harnitchek’s “Big Ideas” initiative, have been in the millions and continue to grow. In fiscal 2011, DLA achieved savings of more than \$237 million, with DLA Land and Maritime saving \$76.4 million, DLA Troop Support saving \$52.7 million and DLA Aviation saving \$107 million. And many big projects within the past five years are still garnering savings, Krist said. Among DLA Land and Maritime’s VE projects, changes in purchasing a sole-sourced Humvee antenna have saved \$45 million so far.

With further opportunities in VM and VE within the divisions, there’s plenty of untapped opportunity in the indirect supply chain savings, said Renee Magill, VE division chief at DLA Land and Maritime.

“Through education, we can track it better, and we can increase our indirect saving dollars,” she said. “The whole enterprise is into using more VM techniques to save money. We’re really driving partnering with our service program managers and engineering support activities to all be working on the same initiatives to get that return on investment. At DLA Land and Maritime, we’re removing those obstacles and partnering up front proactively instead of getting them to buy into something later down the road.”

Krist agreed, adding that DLA is part of the bigger picture.

“We’re really in the limelight now because of all the cost-cutting measures going on,” he said. “VE is going to be a bigger part of how the government operates by getting us involved early and making sure we’re looking at all our options before we go and buy materials.” 🌱

TIPS TO FINDING COST-SAVING IDEAS IN AN ORGANIZATION:

- Can some other product or service do the job at less cost?
- Are requirements too restrictive or excessive?
- Can the product be packaged, stored, handled or transported in a more advantageous, less costly manner?
- Are any test procedures, operations or steps unnecessary?
- Is the product sole source?
- Are there alternative products, requirements, procedures or methods?
- Is there a more efficient way to accomplish the function or process?

DLA Office of **OPERATIONS RESEARCH AND RESOURCE ANALYSIS**

Story by Jacob Boyer

When a previous Defense Logistics Agency director wanted to compare the agency's performance in stocking meals, ready-to-eat, for warfighters during Operation Iraqi Freedom to its ability to do the same during the Gulf War, he went to a DLA office in Richmond, Va., to get the answer.

The DLA Office of Operations Research and Resource Analysis crunched data from databases that preceded the Enterprise Business System to come up with the answer: There were enough MREs in Iraq at the time to keep every resident of Salt Lake City fed for a month.

"We were able to say that there were customers out there who were now complaining about what they were getting to eat, not whether they had something to eat," DORRA Director Glenn Petrina said, emphasizing the improvement in MRE availability from one war to the next.

DORRA is DLA's in-house consultant, providing information and analysis to the agency's decision makers and action officers, Petrina said. Using databases that go back more than

20 years, interviews with employees and an experienced team of operations research and management analysts, the office provides data and recommendations for leaders across the agency.

"One general said DORRA is the 50-pound brain in the agency," said Larry Vadala, DORRA's business manager. "We are able to give them insight and be an honest broker into what the data tells us. Without our analysis, many of our clients would not be able to make informed decisions."

The most important function DORRA provides is helping analyze mission requirements for DLA's many organizations, Vadala said. The office

uses a variety of methods, including interviews, statistical modeling and comparisons to similar organizations, to get the answers the agency needs.

The agency's recent establishment of DLA Intelligence is an example of a time DORRA's management analysts helped agency leaders decide what to do, Petrina said. In addition to conducting interviews with staff to discuss the organization's missions, functions and responsibilities, DORRA looked at the intelligence capabilities of similar commands – U.S. Transportation Command, Army Materiel Command and the Air Force's air logistics centers among them – to help deduce how DLA Intelligence should be staffed to fulfill its mission, he said.

"Our staffing model looks at the jobs you're doing or activities you're performing, how long they take, and whether you have enough people to do that mission based upon current staffing levels," he said. "We also look at organizations and how they're arranged and make recommendations about how they could be more efficient based on how they've organized."

DORRA's staff develops tools that help the organization get the answers





agency leaders require. In 2009, DORRA developed the System of Integrated Metrics Analysis Model, an inventory simulation that evaluates the relationships between measurements across the agency, Petrina said. The SIMAN model allows analysts to make changes to variables involved in logistics planning, including data such as asset location, lead times needed for specific items and inventory levels. Once those variables are changed, SIMAN allows DORRA analysts to see how those changes affect order fulfillment, demand accuracy, material availability and inventory turnover

“SIMAN has been used in various analyses dealing with forecast ability, inventory changes and management objectives,” Petrina said. “It has given senior leaders data needed to make informed decisions throughout the Agency.

DORRA also played a key role in the sentencing of Roger Day Jr., a former DLA Aviation supplier who created a multiyear fraud scheme in which he set up a series of phony vendors that would bid for and win DLA contracts, Petrina said. DORRA, analyzing its historical database, was able to measure Day’s actual and intended damages, which came to \$4.4 million and \$11.2 million, respectively. Day was ultimately sentenced to 105 years in prison.

“Well done. Nice work on finally

getting this guy,” DLA Director Navy Vice Adm. Mark Harnitchek told a gathering of DLA employees involved in Day’s conviction in January. “This conviction sends a great message to others who might try to sell us counterfeit parts.”

Each of DORRA’s more than 60 analysts provides about 1,500 hours of analysis for the agency each year, Vadala said. The research is prioritized regularly with most DLA organizations, including the agency’s primary-level field activities and DLA Logistics Operations. Before each fiscal year, he said, DORRA puts out a call to the agency’s multiple activities, offices and commands asking their leaders what types of analysis projects they need. Coming into fiscal 2012, the agency’s leaders asked for more than 120,000 hours of support, and prioritization was needed to winnow that down to the 85,000 hours the office calculated it could provide.

“Once you work with them for a while, you understand when they’re asking for more than they need,” Petrina said. “We work with them throughout the year to figure out what we can do. Invariably, new requirements come up and we have to adjust somewhere. Everyone has a discussion about what they really need and what they can give up or contract out.”

When a research project comes along that DORRA can’t support, the office helps its customers work with contractors

Air Force Staff Sgt. Russ Johnson pushes a pallet of meals, ready-to-eat, onto a cargo plane. The DLA Office of Operations Research and Resource Analysis takes on projects such as comparing MRE deliveries and stocks from Operation Desert Storm to those of Operation Iraqi Freedom, giving agency leaders valuable data with which to make decisions.

to get the analysis they need, Vadala said. The staff can help translate a requirement into the language needed for contracting and offers administrative support once a contract is awarded.

“We have three contract vehicles they can use to get their requirements on contract more quickly,” he said. “These three contract vehicles have a ceiling of about \$7 million a year available for customers to use, so if a customer says, ‘I really need to contract this out because you can’t help me,’ there’s a good chance they can use our help to get it.”

Petrina said the ultimate benefit DORRA offers the agency is the expertise its analysts bring to the projects they work on.

“We are experienced in DLA. Most of our analysts have been here for a while,” he said. “We know the nomenclature and the territory. We know who bought what, where it came from, where it went, what it cost, and how often it was purchased. We’re the in-house consultants for DLA and feel like we bring a value to the agency it can’t readily get elsewhere.”

When U.S. Transportation Command's Global Transportation Network reached the end of its useful life after about 15 years of operation, the organization looked to the Defense Logistics Agency for help building its replacement. The result, the Integrated Data Environment/Global Transportation Network Convergence – or IGC – now gives logisticians across the Defense Department visibility of supplies as they move through the department's transportation channels.

GTN was developed to improve the in-transit visibility of supplies for warfighters and logisticians worldwide after Operation Desert Storm, but it became outdated, and the investment needed to upgrade it to compete with current systems was too high, said Army Lt. Col. Rodrigue Aleandre, USTRANSCOM's IGC program manager. Meanwhile, DLA had developed the Integrated Data Environment, the information broker that improved the visibility of data, secure access to data, and data quality in terms of its validity, timeliness and accuracy for logisticians across the Defense Department.

Aleandre said there were two reasons for USTRANSCOM to partner with DLA to upgrade its system.

"From the logistics side, supply and transportation are linked," he said "You cannot separate them, so the need for them to work together is the cornerstone of the business. The second point is that, instead of USTRANSCOM developing its own broker while DLA was developing one, we could work together. That pushed a mutual agreement to leverage the capabilities that were already developed under DLA. It was more of a cost avoidance."

In addition to curtailing costs, Aleandre said, IGC allows for the elimination of multiple legacy systems that were expensive to maintain and made it difficult for users to trust the fidelity of data as they tracked their shipments. IGC gives users one place to go to get data on shipments, reducing confusion and incompatible data formatting.

"There are a number of systems involved in doing this," he said. "IGC takes the data from all those systems to give you that picture. Regardless of what system originated a

transaction, IGC would be the system of record. We get satellite data when an item passes through a tracking point. You don't have to go to multiple systems to create a picture. Under GTN, in order to provide a report on a shipment from one point to another, they would have to make multiple queries and compile that information."

All those systems now feed into IGC, Aleandre said, allowing logisticians who need to know whether their supplies are on a truck in Germany or on a boat in the Mediterranean Sea.

"In the past, that information would have to be sent to multiple systems," he said. "With the broker, it is published once and subscribed to by many. There is one publication point."

In addition, IGC expands GTN's historical data, Aleandre said. Under



DEPOT TO FOXHOLE

Story by Jacob Boyer

the old system, planners could only pull shipping data from the previous 180 days. IGC will allow those same planners to go back five years once the system, which went live in October 2011, has been online that long.

“That allows planners to use the data to do analytical studies that could not be done before, because GTN only retained six months of data,” Aleandre said. “With the system just fielded, we don’t have five years, but over time, you’ll have all the data you need for agile tracking in the

21st century to do that analysis. We maintain a single point of distribution of data.”


Noel Romey, a chemical engineer who works with DLA Aviation’s Hazardous Materials Information Resource System, helped test IGC to ensure it could be used by visually impaired users. He said that in addition to finding the system usable for people with visual disabilities, he found his own use for the system.

“I didn’t think that I would use it in my work. I was just asked to test it following a set of canned scripts, but I

actually found there was a case I could use it,” he said. “We put in material safety data sheets for products that the Department of Defense procures and uses. My team puts in that data for DLA. We had a shipment that we weren’t sure where it was, and we were being told it was held up. I used IGC to pull up that shipment and see its status. To me, it’s another tool kit that we can use.”

Moving forward, IGC will be linked to DLA’s Asset Visibility system, which shows logisticians where supplies stored in warehouses and depots are located and in what quantities, Aleandre said. Having the two systems linked will allow planners and logisticians access to vital information on supply locations and quantities worldwide. Work on that link started in May, and Aleandre said it should be complete by the first quarter of fiscal 2014.

“You’ll be able to see the location, transportation channel of what’s moving and what’s located right at your doorstep,” he said. “You can see where it is, what’s being requested, and what’s needed to transport it and distribute it. Now you can track it from the depot all the way to the foxhole.” 📍



Service members retrieve cargo dropped from an Air Force C-17 Globemaster III near Forward Operating Base Todd, Baghdis province, Afghanistan. The Integrated Data Environment/Global Transportation Network Convergence allows logisticians and planners to track in-transit supplies anywhere in the world.

— Photo by Air Force Tech. Sgt. Kevin Wallace



I AM

DLA

My name is:

Gail M. Kinney

I am:

The administrative officer for DLA Document Services

Describe your job in a sentence:

I provide full administrative support: assisting with reorganizations, staffing specifics and award requirements for the DLA Document Services headquarters, field managers and employees.

How long have you worked for DLA?

I have been with DLA for 16 years and a federal employee since 1969.

What is your favorite thing about working for DLA?

I really enjoy the opportunities I've had to provide support to our DLA Document Services managers and employees at the various Air Force, Army, Navy and Marine facilities worldwide. We have a very diverse workforce.

What is your best memory of working here?

It's hard to pick one best memory, but I would have to say it's been the responsibility for training our office services assistants in the field. They each face many different and unique situations in their work environments.

How do you make a difference to warfighters?

I make a difference to warfighters by ensuring our managers and employees are staffed properly and are able to meet the challenges they face in providing document services to our military and civilian customers with a can-do attitude.

Gail M. Kinney

