

## DEFENSE BUSINESS BOARD



# Logistics as a Competitive Warfighting Advantage

October 20, 2016

MajGen Arnold Punaro, USMC(ret), Chair  
Mr. Bill Phillips  
Mr. John O'Connor  
CAPT Garrett Campbell, USN, DBB staff

# Task Group

## Background / Context

- **The Department of Defense operates one of the largest logistics enterprises in the world**
- **Includes supply, maintenance, and transportation across the spectrum of operations, from training to warfighting to asset reconstitution**
  - 100,000 suppliers
  - \$96.4B inventory
  - 18 maintenance depots, 25 distribution depots, and over 49,500 customer sites
- **Its annual cost to operate and maintain in excess of \$150B**
- **Provides a real war fighting advantage**
  - Diverse, distributed, and adaptive to the military operational requirements
  - Responsive, global reach
  - Process oriented to ensure unity of effort, enterprise visibility, and precise response – “speed is our savings”
  - Depot unity of effort aligns expertise and capacity, but greater efficiencies can be achieved (50-50 constraints)
  - 15 years supporting the warfighter
  - Opportunities exist for further improvements and cost reductions



# Task Group

## Terms of Reference (TOR)

The Department of Defense (DoD) logistics enterprise exists to support the “tip of the spear,” and give the U.S. a qualitative advantage over our adversaries...it is necessary that DoD optimize the use of resources and maximize the dollars available to support missions.

While the enterprise has made significant progress the last several years reducing inventory and streamlining processes, additional opportunities exist.

- **To fully explore this, the Task Group worked to:**
  - Understand the unique requirements, perceptions, and realities of logistics in the DoD from each of its major stakeholders
  - Consider recent (and potential future) evolution of the Defense logistics enterprise as driven by mission, worldwide events, industry developments, and legislation
  - Speak with industry practitioners and academic experts to better understand outside recommendations for DoD logistics practices
  - Formulate findings and recommendations



# Task Group

- Research sources
  - DSB, CSIS, BENS, GAO, Rand, OSD (AT&L), McKinsey & Co., Lexington Institute and DBB
- Interviews
  - Current and former senior OSD, Joint Staff and Service leaders
  - Other government: GAO, NDU, LMI, IDA
  - Private industry: Amazon, NDIA Industry Forum
- Briefings
  - Institute for Defense Analysis
  - National Defense Industry Association, Logistics Division

# Key Observations – Industry

## Application of Industry Standards.

|   | World Class Business Practices             | DoD Application   |
|---|--|---|
| 1 | Focused on Core Functions                  | Define and focus on core functions; Divest other activities           |
| 2 | Flat, flexible structures                  | De-layer, Consolidate   |
| 3 | Widely shared information and knowledge    | Powerful CIO focused on promoting information and knowledge sharing   |
| 4 | Process-centered in cross functional teams | Established cross-functional teams for key processes                  |
| 5 | Performance goals used to achieve results  | Refinements to the performance management system                      |
| 6 | Tight control over overhead personnel      | Continuous evaluation and implementation of effective control systems |



# Key Observations

## - Where Change is Needed -

- **Supply Chain Resiliency**
  - Understanding lower tiers capacity and impact on enterprise resiliency
  - Cyber security
  - Data rights
  - Market control – DoD is at the whim of primes and lower cost timelines
- **DLA Leadership Model**
  - Aligning DLA leadership to business standards
- **Defense Working Capital Fund - DLA**
  - Efficiency and effectiveness
- **BRAC Cost Analysis**
  - Master plans with environmental baseline studies focused on closure -- realignment only for efficiency and savings
  - Depot efficiencies – How many are excess? What is the excess?
- **Logistics Enterprise Enduring Issues**
  - Public – private partnerships and the A-76 moratorium
  - Uniformity and standardization in accounting for fully burdened personnel costs
  - 50/50 DoD legislation – relevancy to the current logistics enterprise
  - Inventory management and reduction



# Findings

## - Supply Chain Resiliency -

- **Findings: DoD's Supply Chain Resiliency is at risk.**
  - Adversaries' commercial economic activities can potentially influence our supply base (production, infrastructure and distribution)
  - Cyber security of the industrial base and supply chain is an “Achilles Heel” issue for the DoD, no end-to-end vulnerability assessment having been conducted , thus no corrective action plan
  - Consolidation within the global economy brings efficiency and net returns for investors, but limits DoD supplier options and leave companies at risk to foreign investment
    - Commercial SCADA (Supervisory Control And Data Acquisition) systems across a myriad of industries (energy, transportation, petro chemical, etc.) used for remote monitoring and control are vulnerable to cyber obstruction
  - 90% of TRANSCOM activity takes place on commercial networks with sub prime contractors - DoD has little to no visibility into 3<sup>rd</sup> and 4<sup>th</sup> tier suppliers
  - Intellectual property (IP) theft across global commercial enterprises threatens DoD's ability to maintain a qualitative, military advantage, and thus leverage commercial innovation to maintain deterrence (the Third Offset)
  - Potential adversaries have “Operationalized Globalization”

# Recommendations

## - Supply Chain Resiliency -

- **DoD needs a fuller understanding of end-to-end supply chain vulnerability to identify at-risk foreign and domestic companies**
- **Identify at-risk foreign infrastructure & companies and the potential impact on the ability to project power**
- **Coordinate with the Committee on Foreign Investment in the United States (CFIUS) to ensure the preservation of the logistics enterprise beyond prime contractors.**
- **Establish cyber security standards across all tiers of the supply chain.**
- **Centralize resiliency efforts under a single entity in order to more effectively coordinate with other government agencies**





# Findings

## - DLA Leadership Model -

- **Finding: As the nation's largest logistics enterprise, DLA's leadership should incorporate private business sector structures**
  - Leadership incentive structures are not reflective of private business best practices
  - Leadership performance objectives in similar functions should produce similar positive results
  - DOD needs to learn from global organizations to keep costs low and deliver products “on time and on cost.”
    - large scale operations -
    - diverse international operations -
    - extensive supply chains supporting highly distributed product lines -
  
- **Finding: Previous study (DBB Report FY03-3 TRANSCOM-DLA) recommended not to combine TRANSCOM and DLA. Recommendation remains relevant and valid**
  - Roles, missions, competencies remain too diverse to create a constructive combination
  - The organizational merger would not significantly facilitate broader transformational objectives of supply chain integration
  - Inter-organizational coordination and cooperation have yielded improvements in asset visibility and management
  - Catalyst for consolidation and creating larger centralized organization is non-existent

# Recommendations

## - DLA Leadership Model -

- **DoD should bring in accomplished civilians to lead its large logistics enterprises (e.g. DLA)**
  - The realignment of DLA leadership structures would include;
    - A civilian head with a 3 Star military deputy tied to operations
    - The DLA civilian head should NOT be a political appointee
    - Hire a proven business professional with a track record and background in global logistics
    - Introduce a 5 year incentivized results driven metrics-based contract
    - Put civilian global logistics experts throughout all levels of enterprise leadership
  - Provide DoD pilot authority to act as a test bed for potential additional realignment opportunities.

# Findings

## - Defense Working Capital Fund (DWCF) -

- **Finding: The primary function of the DWCF is to improve efficiency and effectiveness, but it is being used to collect savings**
- **Finding: Reducing DWCF overhead surcharges will reduce costs**
- **Finding: Depot level maintenance and supply issues continue to impact the Services' ability to budget and manage DWCF workload which increases carryover**
  - Timing
  - Defining the Scope of work
  - Prioritization of parts and laborers(engineers and artisans)

# Recommendations

## - DWCF -

- **To reduce carryover, require a well-defined scope of work and the parts needed by the Industrial Operations activities to perform the contracted repair work (parts and materials, skilled labor, tools, equipment, technical data, and funding)**
- **Require trend analysis of budgeted orders versus actual orders.**
  - Can provide an understanding of future years' depot maintenance workload requirements.
  - Will minimize carryover
  - Supports adjustments to budget estimates
- **Pursue public-private partnerships to offset depot backlogs**



# Findings

## – Base Realignment and Closure –

- **Finding: Declining budgets, force reductions and emerging missions underscore the need to divest excess infrastructure**
  - Army and Air Force estimates 33% and 32% excess state-side infrastructure capacity respectively; Defense Logistic Agency 12% excess
  - DOD estimates 22% excess capacity of military base infrastructure
- **Finding: Existing authorities limit DoD's ability to reduce or realign excess infrastructure. DOD and defense communities favor BRAC authorization.**
- **Finding: A growing number of defense communities and Congressional delegations are supportive of a BRAC authorization**
  - Bills were introduced in both chambers in 2016 by Members of both parties
- **Finding: Congress does not dispute need for efficiency, but remains concerned about the current reduction of military capabilities and the excessive costs of the 2005 round**
  - Cites the 2005 BRAC round which cost \$35 billion (\$14 B over estimates) to achieve roughly \$4 billion in future annual savings
  - Skeptical of the Department's estimates of proposed savings
  - BRAC seen as an irreversible way to reduce military capabilities
  - Proposed changes in the BRAC law that will control costs and increase transparency – DOD does not support.

# Findings

## - Base Realignment and Closure -

- **Finding: BRAC 2005 was the largest round undertaken and represents a significant departure from the norm as compared to prior rounds. BRAC 2005 focused on transformation, DoD is on record that future rounds will focus on efficiency**

| (TY \$B)       | Major Base Closures | Major Base Realignments | Minor Closures and Realignments | Costs <sup>1</sup> (\$B) | Annual Recurring Savings <sup>2</sup> (\$B) |
|----------------|---------------------|-------------------------|---------------------------------|--------------------------|---|
| BRAC 88        | 16                  | 4                       | 23                              | 2.7                      | 1.0   |
| BRAC 91        | 26                  | 17                      | 32                              | 5.2                      | 2.3   |
| BRAC 93        | 28                  | 12                      | 123                             | 7.5                      | 2.7   |
| BRAC 95        | 27                  | 22                      | 57                              | 6.6                      | 1.9   |
| Total          | 97                  | 55                      | 235                             | 22.0                     | 8.0 <sup>3</sup>                            |
| <b>BRAC 05</b> | <b>24</b>           | <b>24</b>               | <b>765</b>                      | <b>35.1</b>              | <b>4.0</b>                                  |

Source: Statement of Dr. Dorothy Robyn Deputy Under Secretary of Defense (Installations and Environment) March 17, 2010

- **DLA BRAC Data:**

- Site reductions: 1989 = 34, 2012 = 20; Reduced by 14 sites
- DLA Available Cubic Feet (ACF): 1989 = ~ 694 million ACF, 2012 = ~ 233 million ACF; Reduced by ~ 461million ACF

# Recommendations

## - Base Realignment and Closure -

- **Pursue another round of BRAC to significantly reduce excess logistics' infrastructure.**
  - Legislation authorizing a BRAC process should;
    - Stipulate the focus is closure, with minimal realignments necessary for closure, efficiency, and immediate or near term savings
    - Target supply chain and excess depot warehouse and capacity
- **Pursue other tools to leverage and or redeploy logistics assets.**
  - Performance-based logistics contracts
  - Energy savings performance contracts
  - Enhanced use leasing

# Findings

## - A-76 & Public-Private Competitions -

- **Finding: Re-invigorating the A-76 study process would support DoD efforts to ensure that public-private competitions result in greater savings.**
  - A focus of the A-76 competitive process is to produce savings through reducing personnel costs by reengineering activities to perform them with fewer personnel (in-house or by contractor)
  - Historically, DOD conducts more A-76 competitions than any other federal agency (food services, laundry services, building services, and public works)
  - The GAO and DoD IG have determined that DoD has yet to demonstrate A-76 competitions do indeed produce savings.
- **Finding: DoD A-76 efforts have dwindled post Congressional moratorium, and there is a perception A-76 provides government entities an unfair cost advantage due to issues associated with contractor reporting and accountability per the fully-burdened costs of their workforce.**
  - DOD lacks credible, comparable, and accurate cost data on development and operations. Additionally, DoD needs to understand the context of the data as it relates to a large, profitable logistics industry sector with the capability to bid on, compete for, and potentially partner with private entities in order for DoD to achieve cost savings, efficiencies, and performance improvements



# Recommendations

## - A-76 & Public-Private Competitions -

- **Complete a thorough analysis of A-76 competitions and meet the Congressionally mandated report requirement indicating what can be outsourced prior to reinitiating public – private competitions**
- **Establish a uniform definition of “fully burdened, life cycle cost” and track and report these costs for its workforce: active, Guard, Reserve, civilian, contract, and FFRDC**
  - Must take into account all cost elements including education, health care, and future retirement costs
  - DoD should strive to remove military personnel from commercial activities – currently does not take into account the fully burden cost of a service member
  - To fully comply with 10 U.S.C 2330a and rebuild a viable program, align resources and promulgate improved guidance, DoD should develop an inventory of activities performed by private contractors and
- **True life-cycle cost – calculations and potential savings need to be an evaluation criteria**



# Findings

## - 10 USC 2466 50-50 Rule -

- **Finding: The 10 USC 2466 Limitation on Performance of Depot Level Maintenance (50 – 50 rule) applies an self-imposed constraint on Depot-level maintenance and repair.**
  - DOD does not know what it needs on hand to sustain itself over time
  - A fully optimized maintenance capability requires flexibility so as to;
    - Reduce the depot maintenance component of Total Ownership Cost (TOC) on current and future systems by focusing on core depot-level capabilities
    - Tailor the infrastructure, logistics processes, and employ a flexible labor force to maximize worker task time and minimize overhead costs
    - Maintain a more consistent level of material condition
    - Meet aircraft production requirements associated with readiness demand
  - Establishing a hard percentage constraint does not support efforts to;
    - Maintain a sufficient public and private sector depot level maintenance workload ensuring sufficient public sector industrial capacity
    - Surge to meet wartime material readiness requirements in the event of a crisis

# Recommendations

## - 10 USC 2466 50-50 Rule/Leveraging Commercial Best Practices -

- **Pursue revision of 10 USC 2466**

- Provide greater flexibility to pursue cost savings,
- Supports efficiencies within the depot-level repair system
- Promotes adequate industrial infrastructure both in the public and private sectors
- 50-50 should be DoD-wide, not Service specific
- DoD should redefine “core” so that if we have it, it must be core

- **Leverage commercial infrastructure to achieve significant savings. Specific aircraft programs are ripe to implement proven material solutions that are embraced by major commercial aircraft operators.**



# Logistics Recommendations Summary

- **Assess end-to-end supply chain vulnerabilities and work with CFIUS to ensure enterprise-wide resiliency**
- **Institute civilian leadership over its large logistics enterprise (DLA)**
- **Reduce DWCF carryover through effective trend analysis and improved repair processes**
- **Pursue a new round of BRAC**
- **Re-evaluate in order to Re-institute an improved A-76 process**
- **Revise 50-50 Rule for greater efficiency and effectiveness**

