

# Logistics Transformation



**Advanced Planning Briefing for Industry  
1 November 2002**

*Without a Transformation in Logistics ... there will be no Army Transformation*

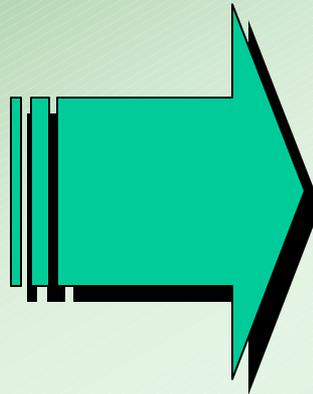


# Army Transformation

## ...Guiding AMC Transformation

The Army Vision is clear:  
An Army that is.....

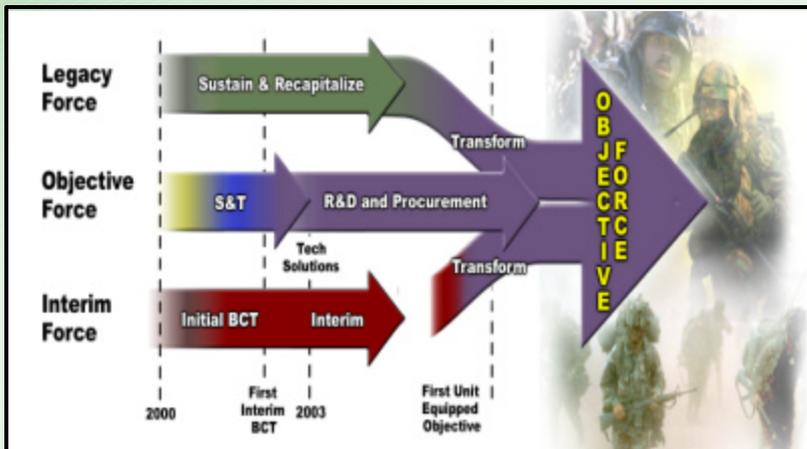
- More **Responsive**
- More **Deployable**
- More **Agile**
- More **Versatile**
- More **Lethal**
- More **Survivable**
- More **Sustainable**



The Army Vision defines the Logistics Transformation Vision:

*Ensure Army forces are capable of rapidly deploying in support of current and future operational force deployment goals; effectively sustain the full spectrum of Army operations, while synchronizing Army and Joint efforts to:*

- *Enhance Strategic Responsiveness – meet deployment timelines*
- *Reduce CS/CSS footprint in the combat zone*
- *Reduce the cost of generating and sustaining forces without reducing warfighting capability and readiness*





# Top 5 Priorities Next 12 Months

## Logistics Transformation Requires THE ARMY

Unit of Action RMS will determine 2010 and beyond sustainment budget requirements

- Demonstrate that we value reliability, maintainability, sustainability (RMS) in our decision making process
- Force Structure, worldwide positioning and people
  - TAA 11: excursions - apply now; process review – begin immediately
- Embrace deep culture change driven by SRS/balanced score card metrics to drive continuous improvement
- Shift to cost conscious/cost reduction culture (helps finance continuous improvement)
- Total system approach to Logistics Transformation

$$PPA + (TLM)^2OSC + F_R + L_A = (-FP)(-\$)(+C)(+D)$$

(Power Projection Architecture) + (Total Lifecycle Mgt) (Two Level Maint)(Optimizing Supply Chain) + (Financial Reform) + (Logistics Automation)

=

(Reduced Footprint) (Reduced \$) (Increased Capability) (Increased Deployability)



# Changing the Culture

**Sustainment culture** is a combination of **support<sup>ED</sup>** organization's expectations and the **support<sup>ING</sup>** organization's view on how to best meet them...

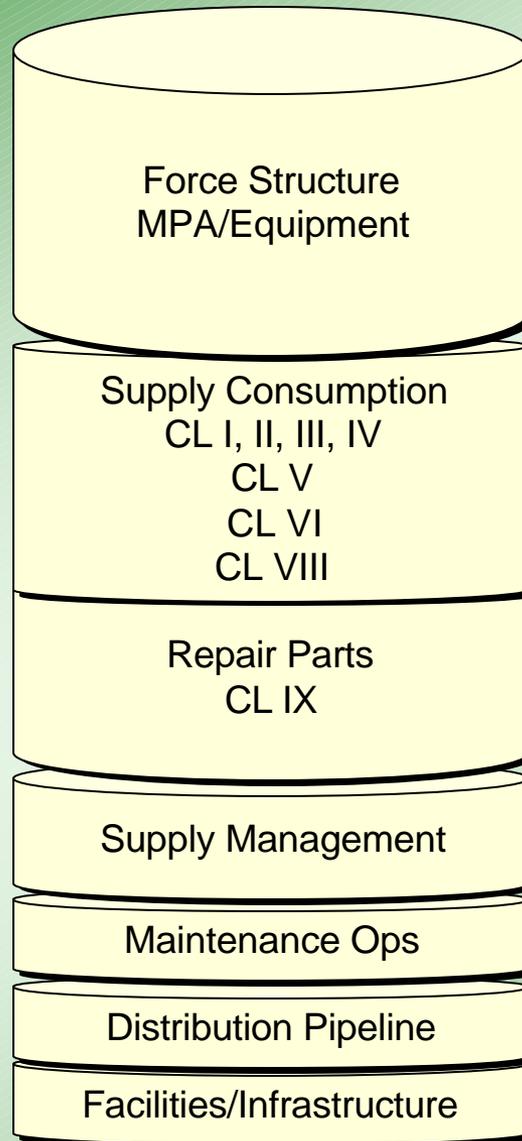
Current Sustainment Culture	Objective Sustainment Culture
<p>↓ <b><u>Failure focused</u></b> – manages minimum readiness rates and Mean Time Between Failure; <b><u>report averages</u></b></p>	<p>↑ <b><u>Continuous improvement &amp; performance focused</u></b> – maximize readiness</p>
<p>↓ <b><u>“It costs what it costs”</u></b> and it is too expensive to make it cost less; spend to budget</p>	<p>↑ <b><u>Cost reduction mentality</u></b>; not budget execution</p>
<p>↓ <b><u>“Ownership” of piles</u></b> – bigger pile is better</p>	<p>↑ <b><u>Confidence</u></b> through visibility &amp; performance; pile size &amp; ownership are irrelevant</p>
<p>↓ <b><u>“Just in case, plus some”</u></b> – inventory is protection; more is better</p>	<p>↑ Just enough &amp; the ability to get more fast; stock forward for probables not all possibles</p>
<p>↓ Manage the seams</p>	<p>↑ <b><u>No seams</u></b> – one enterprise</p>
<p>↓ <b><u>Logistics is a set of functions</u></b> and branches (TC, OD, QM, AVN, Med....)</p>	<p>↑ <b><u>Logistics is a process</u></b> to deliver products and services; distribution, repair, inventory management, production, healthcare</p>



# What Drives Sustainment Resources

- Organization and Force Structure, Planning Factors
- Tactical Log Operations
- Enabling Technology
- Logistics Automation
- Financial Reform

- Cost, Quality and Reliability Focus
- Life Cycle Management
- End to End Distribution
- Supply Chain Management
- Power Projection Architecture



Reduce Demand

Improve Reliability



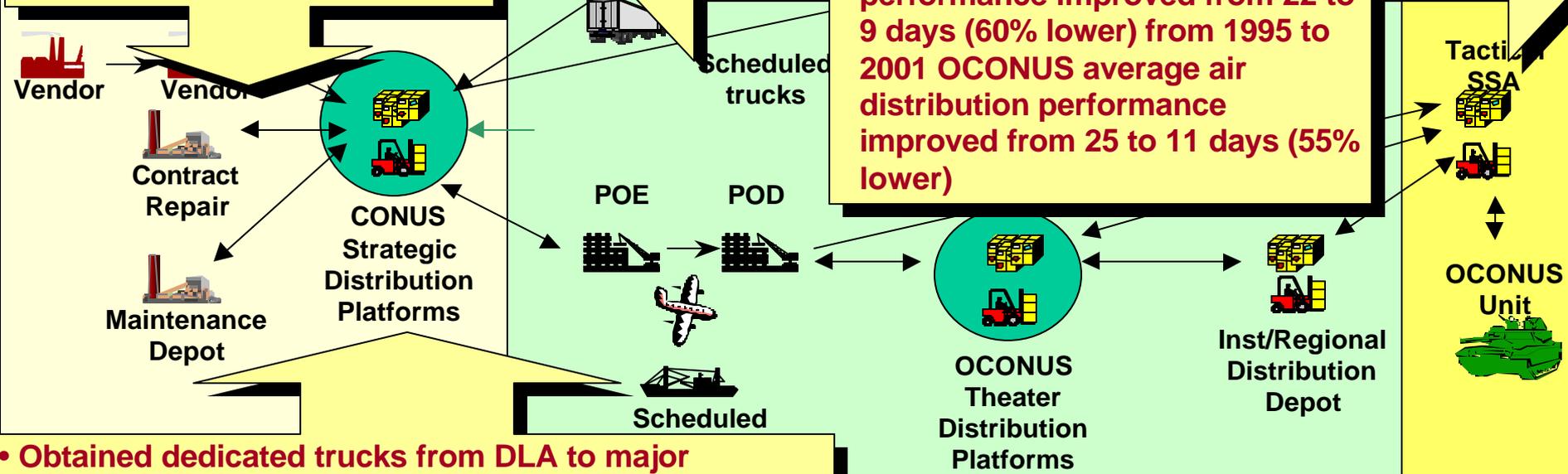
# The AS IS Sustainment Environment

We've Come a Long Way But.....

- Reduced sales transactions w/ SSF MS 1/2

- Established RECAP and NMP programs
- Began process to eliminate DS +

- Reduced CSS in Force XXI/LCD
- On hand AMI wholesale inventory reduced from \$14 billion to \$7.7 billion (\$8.7 with SSF capitalized stocks)
- Improved inventory velocity and asset visibility with SSF MS 1/2 - preparing to implement MS 3
- CONUS average distribution performance improved from 22 to 9 days (60% lower) from 1995 to 2001 OCONUS average air distribution performance improved from 25 to 11 days (55% lower)



- Obtained dedicated trucks from DLA to major installations
- Army partnered with DLA to pioneer the scheduled DoD distribution network being built today, providing fast, cheap, and reliable distribution performance

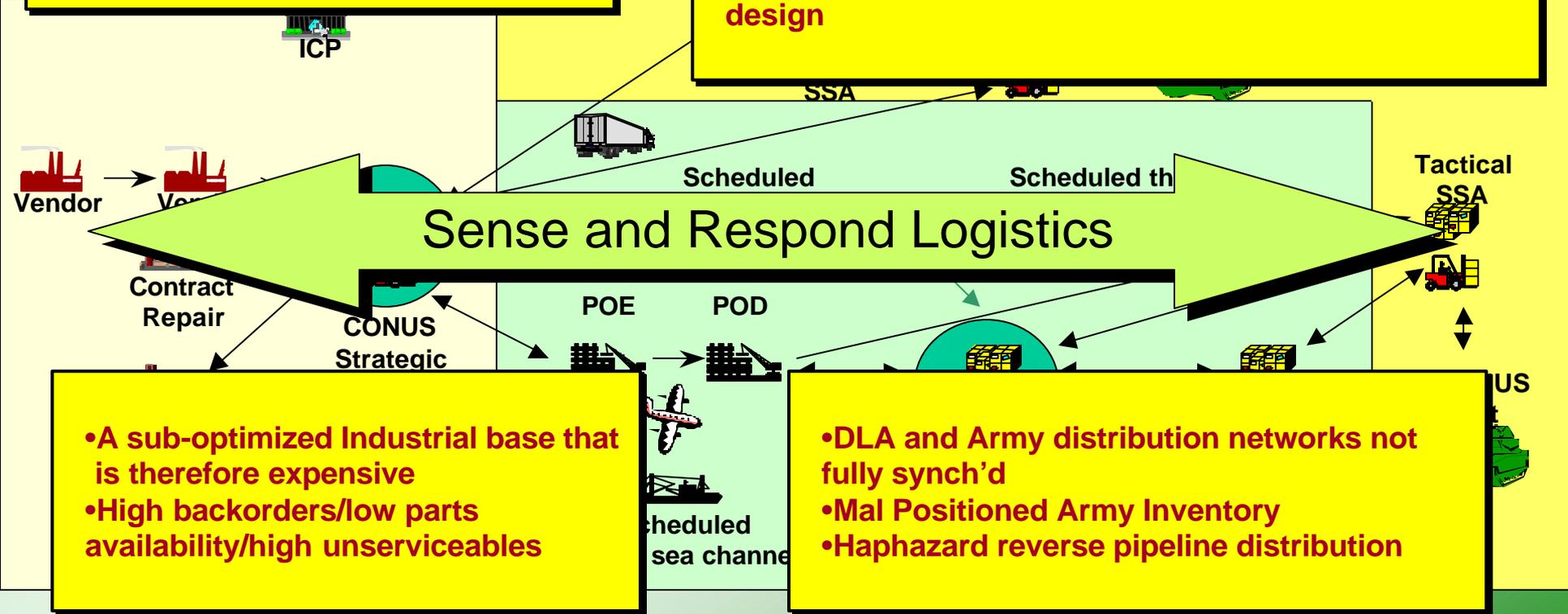


# The AS IS Sustainment Environment

We've Come a Long Way But To Meet The Demands of the Objective Force Environment We Have To Evolve

- Financial Policies that encourage sub-optimum system performance and turbulence

- Lack of visibility - factory to foxhole
- Lack of synchronization b/w National and local repair
- OPTEMPO cost and sustainment structure growth driven by lack of understanding in early systems design



- A sub-optimized Industrial base that is therefore expensive
- High backorders/low parts availability/high unserviceables

- DLA and Army distribution networks not fully synch'd
- Mal Positioned Army Inventory
- Haphazard reverse pipeline distribution



# Optimizing Sustainment: A PROCESS Orientation Yielding Better Readiness, Lower Cost and Reduced Footprint

**Financial Integration... Across the Enterprise**

**Total Life Cycle Management to Reduce Sustainment Costs**

- Dollar cost banding
- Expert ASL review team
- Rule-based multi-ech practice
- Model with LMP

- Improved transfer pricing policies
- Stable funding

- Encourage corporate solutions
- Align decision making incentives across the Enterprise
- Enable stable system operation

- RMS valued throughout The Army
- Distribution management from national to field level
- Maximize the value of forward stockage points
- Total lifecycle management and two level maintenance in place

**Sense and Respond Logistics**

- Develop a responsive and flexible national sustainment base

- Scheduled and synchronized distribution network
- Manage the reverse pipeline

- Collaborative parts planning

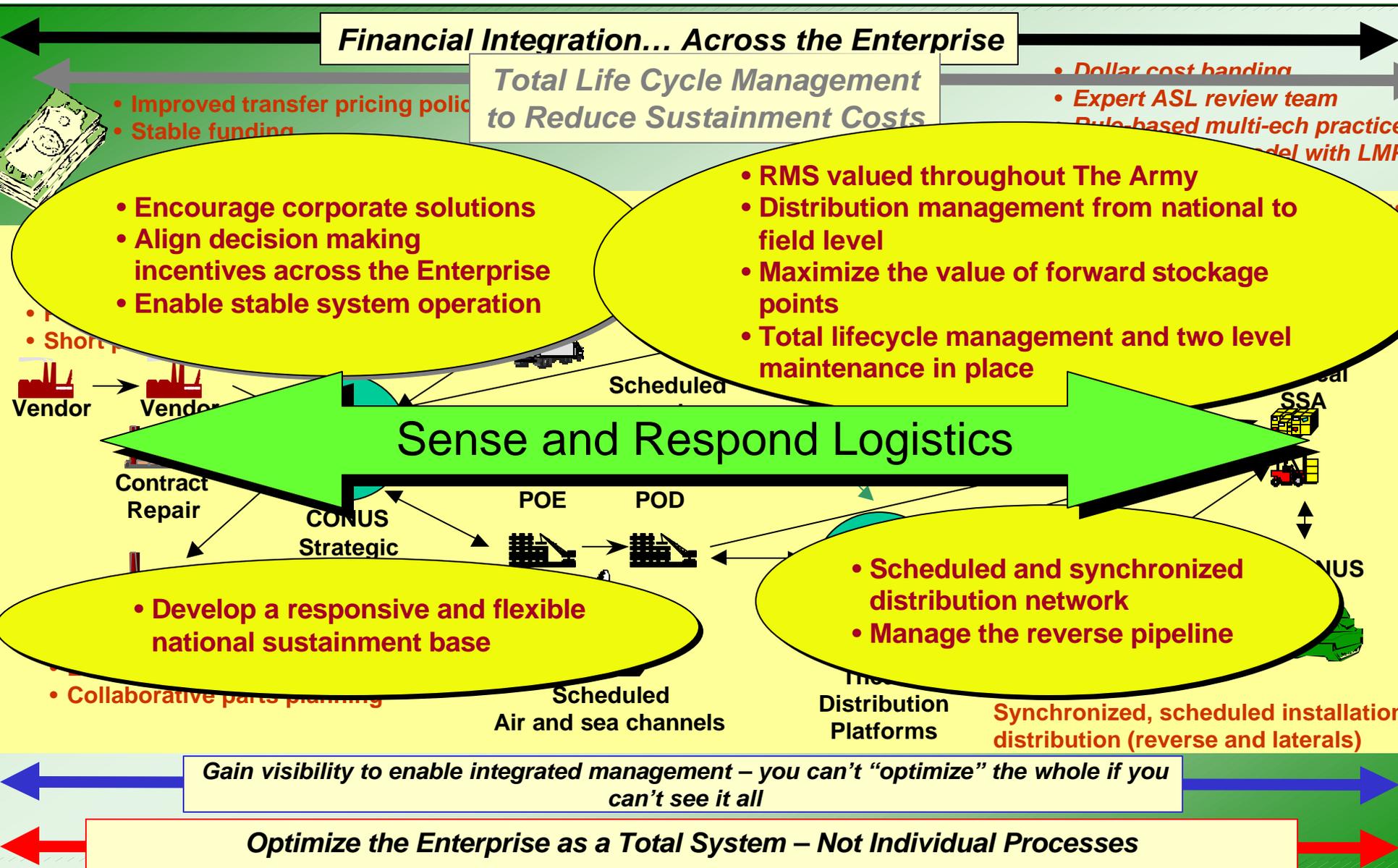
Scheduled Air and sea channels

Distribution Platforms

Synchronized, scheduled installation distribution (reverse and laterals)

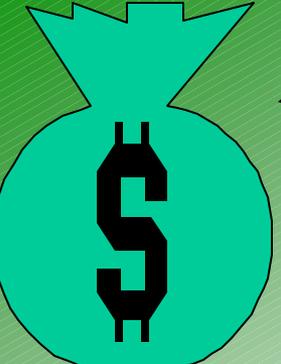
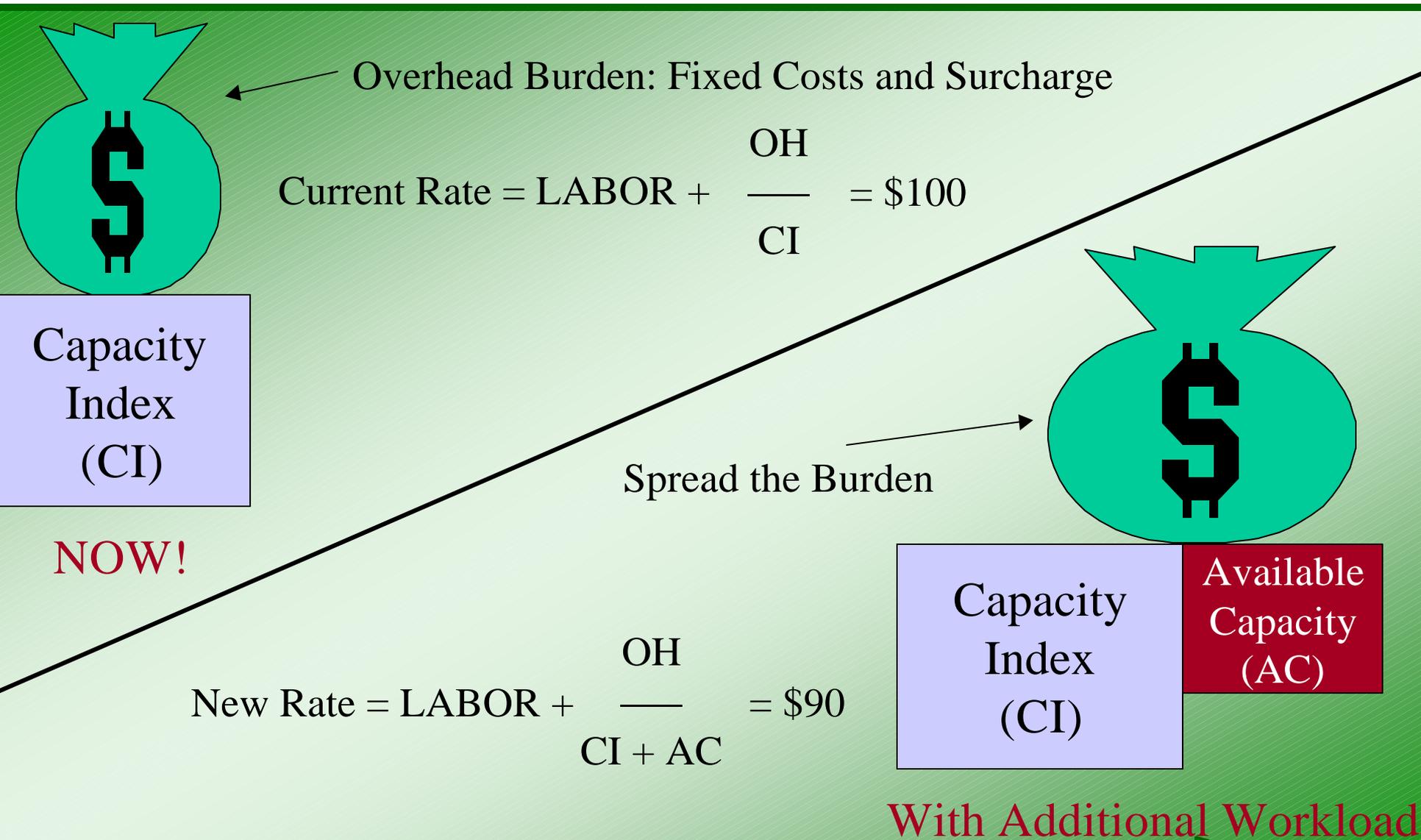
**Gain visibility to enable integrated management – you can't "optimize" the whole if you can't see it all**

**Optimize the Enterprise as a Total System – Not Individual Processes**





# What Does Increased Workload from Public-Private Partnership Mean to the Ground Systems Industrial Enterprise?



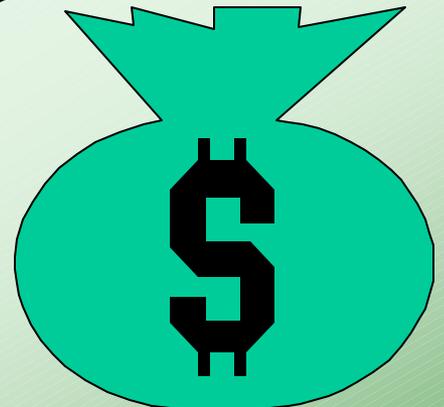
Capacity Index (CI)

NOW!

Overhead Burden: Fixed Costs and Surcharge

$$\text{Current Rate} = \text{LABOR} + \frac{\text{OH}}{\text{CI}} = \$100$$

Spread the Burden



Capacity Index (CI)

Available Capacity (AC)

$$\text{New Rate} = \text{LABOR} + \frac{\text{OH}}{\text{CI} + \text{AC}} = \$90$$

With Additional Workload

More Competitive Rate = More Work = Even Lower Rate



# SUMMARY OF SALES / UTILIZATION STATUTES

STATUTE	SALE OF	SALE TO	FOR	RESTRICTIONS	FINANCIAL	APPROVAL LEVEL
10 USC 4532 (The Arsenal Act)	"supplies" (articles or services)	other Army activities	Army use (but can be partial and items supplied as GFE to contractor)	must establish "economical basis"; make-or-buy decision on out- of- pocket, but pay full cost	reimburse-ment, by project order	CDR of facility (by reg)
10 USC 2208 (h)	AWCF inventory	contractors	use in performing DOD contracts		reimburse fund	PCO (?)
10 USC 2208(j)	manufactured or re-mfd goods or services as subcontractor	contractors	fulfilling DOD contract or subcontract	solicitation for contract / subcontract must be open to public/private competition	omit costs of DOD- designated "mission-critical activities", ancillary activities	HCA  (delegation)
10 USC 4543 (mfr of large cal cannon, gun mounts, recoil mech., munitions or components)	manufactured items / related services	U.S. company	DOD, USG, friendly foreign government, or commercial	items/services not commercially available; buyer indemnifies US	Incremental payments; <i>may</i> be FFP / variable costs if commercial item; develop working capital	CDR of MSC responsible for facility (by statute)
10 USC 2563 (NOT mfr of cannon, mounts, recoil mech., munitions/compo nents; DOD may designate)	articles and services	person outside DOD	not specified, but subject to Arms Export Control Act	items/services not commercially available; buyer indemnifies US, but gross negligence/ willful misconduct / Govt noncompliance excluded	Incremental payments; FFP; variable costs + deprec. +capital improvement ; develop working capital	DA level (delegation)
22 USC 2770	defense articles and services	U.S. company	incorporation into end items for friendly foreign country	items/services not commercially available; buyer indemnifies US export license/ possible end- user certificate	adv. payment of estimated costs; full cost	HCA (delegation)



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10 USC 2539b	samples, drwgs, <u>equpmnt / mtl</u> lab / test facilities	person or entity	independent research & development or use in demonstrations to friendly foreign govts	equipment /materials must be used exclusively for research and development	recoup direct and indirect costs	PARC ----- instn cdr
10 USC 2358  (cooperative agreements or grants)	services, use of employees or facilities	private sector or other federal agencies	participation in R & D projects relating to weapon systems or other military needs	can't duplicate research under other DoD programs; Army funds can't exceed outside funding	funds to Army	COC-Wrn or Pictny; >\$5 m /yr or \$25m total DA level (del)
10 USC 2371  "other transactions"	services, use of employees or facilities		participation in R & D projects	can't duplicate research under other DoD programs; Army funds can't exceed outside funding; use when standard contract or cooperative agreement not appropriate	reimburse-ment goes to special Treasury account	COC-Wrn or Pictny; >\$5 m /yr or \$25m total DA level (delegation)
10 USC 2474 (Centers of Industrial Technical Excellence)	services related to depot-level activity core competencies, or use of facilities or equipment	private industry	public- private partnership to increase use/decrease costs, or encourage creation and preservation of jobs to maintain skills	must have no adverse effect on readiness; private industry must indemnify US	reimburse direct & indirect costs to fund that incurred; can use revenues for facility operation, maintenance & env.restoration	MSC CG ( ? )
15 USC 3710a (Cooperative Research and Development Agreements)	R & D work by federal "lab" , or use of lab's equipment and facilities	non-federal entity	enhancing technological knowledge of lab and private sector for mutual benefit; transferring technology	R & D must be consistent with lab's purpose, not unduly compete with services in private sector	reimburse direct & indirect costs to fund that incurred	Director of federal laboratory (by statute)



# Logistics Transformation Task Force

## Final Report

### Army Knowledge Online (AKO)

The Logistics Transformation Task Force Final Report can be accessed on the Army Knowledge Online (AKO) website using the following path:

AKO - <https://www.us.army.mil/>

#### Collaboration Center

- Army Communities
  - Logistics
    - Log Transformation TF
      - LTTF

The LTTF Final Report and the Appendix are found here.