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TESTIMONY OF

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BEFORE THE UNITED STATES SENATE

COMMITTEE ON HOMELAND SECURITY AND

GOVERNMENTAL AFFAIRS

**OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL
WORKFORCE AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE**

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**Overview of the Department of Defense
Supply Chain and Logistics**

**Mr. Alan F. Estevez
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Chairman Voinovich, Senator Akaka and Members of the Committee:

Thank you for the opportunity to appear before you and discuss the current status of the Department of Defense's efforts to address areas of risk in the Department's supply chain processes. I welcome the opportunity to do so as we have developed and are implementing a comprehensive Supply Chain Management High Risk Improvement Plan to both improve the level of logistics support we are providing our soldiers, sailors, airmen, and marines and to increase the return on investment, for that support, to the American taxpayer. It is our obligation as leaders to provide our warfighters with the policy, procedures, and systems that they need to be successful today and in the future. In that vein, today I will summarize our current logistics posture, describe some emerging challenges, and highlight recent actions the Department has undertaken to improve our supply chain management.

Before I address those areas, I would like to compliment your respective staffs, and the staffs of the General Accountability Office (GAO), and the Office of Management and Budget (OMB) who have worked with the Department staff in addressing the Department's supply chain management high risk area. Congressional staff, GAO, OMB and DoD logisticians have worked together to develop DoD's

concerted plan to address areas of mutual concern. This cooperation speaks highly of the professionalism and dedication of this intragovernmental team. This collaboration extends to the effective working relationship between Mr. William Solis of GAO, who joins me today on this panel, and to senior members of the Congressional staff and OMB.

Scope of DoD Supply Chain

If the DoD supply chain were a for-profit company, it would be number 9 on the Fortune 500, accounting for \$151 billion in spending in Fiscal Year 2005. The 1 million uniformed, civilian, and contract employees who support all aspects of the Department's supply chain manage \$79.5 billion in inventory and keep 15,000 aircraft, 300 ships, and 30,000 combat vehicles capable of fulfilling their mission. The Defense Logistics Agency (DLA) alone would be in the Fortune 50 as a \$35 billion business, ranking with such well known companies as Lockheed Martin, Caterpillar and Intel.

DoD logisticians are called upon to support a wide variety of activities. Every day, the DoD logistics enterprise supports troops forward deployed in desert, mountain, jungle and urban environments, around the world. Unlike the other members of the Fortune 10, DoD logistics can be called upon to support operations on short notice in parts of the world in which we have little or no existing presence or capabilities. Where DoD is unique is that no commercial firm, including Wal*Mart and Dell, would consider logistically supporting operations at any location in the world on short notice or for indefinite periods. Operating in the mountains of Afghanistan or the desert of Al Ambar province is simply unthinkable in the private sector. It is not just about profitability. It is

also about capability.

In addition to support of the warfighter in both current, planned, and what-if warfighting scenarios, over the past 18 months, we have been engaged in disaster relief efforts in the Asian tsunami, the Pakistani earthquake, and, of course, Katrina relief. It is indicative of the high esteem in which DoD logistics is held that we have been asked to work closely with the Federal Emergency Management Agency (FEMA) in preparing for the current hurricane season. In advance of the current hurricane season, various components of the DoD logistics enterprise, including United States Northern Command (NORTHCOM), the combatant command whose area of responsibility is the Continental United States, the Defense Logistics Agency, the Joint Staff, and various agencies within the Office of the Secretary of Defense have worked together to pre-position material for disaster relief, to run simulations of relief operations, and to establish channels of communications and personal relationships which will enable quick response to natural disasters. DLA has also supported FEMA in procuring shelter, medical supplies, food and other materiel for disaster relief.

A \$151 billion enterprise supporting our warfighting forces around the world, DoD logistics manages over 5 million different secondary items. There will always be elements of risk. In his testimony of October 2005, the Under Secretary of Defense for Acquisition, Technology, & Logistics, Mr. Ken Krieg, provided a broad outline of the challenges we face, and how we planned to address them. We face an increasingly uncertain world, both in terms of the nature of military or asymmetric threats and natural disasters. Our logistics system must project American power or support worldwide, on

short notice, to support both an increasingly mobile and distributed coalition forces worldwide, which adds complexity to the task, and to support unpredictable disaster relief efforts in remote areas such as the mountains of Pakistan. The logistics system must do so while expending fewer resources, both to meet the expectations of the taxpayer and to free up resources for recapitalization of our vital weapons systems.

However, we have made tremendous progress in transforming DoD logistics, even as we continue to support multiple warfighting and disaster relief efforts around the world. I will provide an update on some of our accomplishments.

Successes

The Supply Chain Management High Risk Improvement Plan is a component of the Department's larger transformation effort. A primary metric is customer wait time, i.e., how long does it take from the time the customer orders an item until he or she receives the item. This is a key factor in the performance of the logistics system. I am pleased to report that we have seen a 33% decrease in customer wait time from FY 2004 through April 2006, from an average of 24 days to 16 days. We expect to see further progress in this number as the initiatives we are pursuing are implemented.

Distribution Process Owner (DPO)

The designation of U.S. Transportation Command (USTRANSCOM) as the Distribution Process Owner (DPO) has already led to significant benefits in aligning and synchronizing the Department's distribution process. As a result of this better alignment,

average customer wait time in theater has decreased from 22 days in March 2005 to 12.2 days in June 2006. Additionally, DLA, working with USTRANSCOM and the U.S. Central Command (CENTCOM) established the Defense Distribution Depot Kuwait Southwest Asia (DDKS) to improve levels of support in Southwest Asia and decrease shipping costs for materiel required in that region. In his testimony in October, 2005, Mr. Krieg shared the financial benefit of \$400 million we saw from the operations of DDKS.

Radio Frequency Identification (RFID)

Asset visibility is another area that the GAO has identified as a high risk area. One of the key initiatives DoD is implementing to overcome this deficiency is the use of radio frequency identification technology, or RFID. In fact, DoD is considered a leader in this technology area. The DoD operates the largest active RFID network in the world, and today all consolidated shipments moving to Iraq and Afghanistan are tagged providing the warfighter with unprecedented visibility of incoming shipments. Personally, I am working closely with my counterparts in the commercial world to drive development of standards and adoption of passive RFID to facilitate the broader use of this technology to improve supply chain management.

A microcosm of what we can expect from broad adoption can be seen in the results of the U.S. Marine Corps' (USMC) implementation in Iraq. In June of 2005, I had the opportunity to spend time with the Second Marine Expeditionary Force at Al Taqqadam in Iraq. The Marine Corps streamlined their business processes by capitalizing on RFID, satellite technology, and data integration software to more

effectively manage their distribution pipeline to USMC Forward Operating Bases — literally the “last tactical mile.” This streamlined distribution system has enabled the Marines to:

- Reduce Marine inventory on hand in Iraq from \$127 million to \$70 million;
- Increase the percent of requisitions filled from supplies already in Iraq from 77% to 89%;
- Reduce the requisition backlog processed at the Marine logistics hub in Iraq from 92,000 to 11,000, in part by reducing redundant ordering;
- And most importantly, instill confidence in the reliability and predictability of the logistics system for Marine forces.

Continuous Process Improvement

Successful efforts to achieve operational excellence are based on senior leadership commitment, an understanding that improvement is a never ending journey, not a temporary initiative, and that there are a set of structure techniques which must be rigorously applied to achieving increasing levels of customer satisfaction. A DoD-wide commitment to implement Continuous Process Improvement (CPI), which includes the application of Six Sigma quality techniques and the Lean approach to operations, has been launched out of the logistics community within DoD. In fact, a DoD CPI Process Manual has been signed out by the Deputy Secretary of Defense, Secretary Gordon England.

In his testimony of October 2005, Mr. Krieg discussed some of the excellent

results we've seen in applying the principles of CPI to our maintenance depots, including the reduction in cycle times on such activities as aircraft and vehicle maintenance. As we have moved CPI into other areas, we are seeing similar results in the distribution process as well. Currently, we have two strategic distribution depots, in New Cumberland, Pennsylvania (Defense Depot Susquehanna, Pennsylvania) and Tracy, California (Defense Depot San Joaquin, California), which, among other functions, act as consolidation points for our shipments to Iraq and Afghanistan. Starting in 2005, DLA implemented a comprehensive Lean program in both depots, leading to the following results:

- Improved processing times for air pallet builds from over 85 hours to an average of 35 hours
- An increase in the percentage of freight processed in under 2 days from 38% to 91%
- 40,000 square feet of space freed up in the San Joaquin distribution depot as a result of the implementation of process redesign.

This is an excellent example of the ability of our CPI efforts to impact customer wait time and cost, two areas of vital importance to our warfighter and the taxpayer. It speaks well of the innovative nature and leadership position of DoD logistics, that the logistic organization deployed CPI as a leading initiative and has been designated as the lead organization for the entire Department.

Base Realignment and Closing Process Will Reinforce Logistics Programs

The recommendations of the Based Realignment and Closure Commission (BRAC), which were approved by Congress and signed the President in September 2005, will serve to reinforce the programs highlighted in our Supply Chain Management High Risk Improvement Plan.

Joint Regional Inventory Materiel Management (JRIMM), one of the initiatives included in the Supply Chain Management High Risk Improvement Plan, eliminates duplication of inventory and materiel handling in a region and creates a smoother materiel flow for all of the Components in that region. A Regional Inventory Materiel Management pilot with the Navy in San Diego led to a 40% reduction in the number of touches (move, stow, pick, ship) required to move materiel to the point of use in the maintenance shops and the elimination of an entire warehouse with slightly improved customer wait times. The benefit to the warfighter is more efficient logistics. Our first JRIMM implementation, on the island of Oahu, is being lead by United States Pacific Command (PACOM), the combatant commander for the Pacific. On Oahu, the DLA operates a regional hub, which provides service to Marine, Army, Air Force and Navy installations on the island.

BRAC designated the DLA as the primary operator of storage facilities in the Continental United States (CONUS), and sought to eliminate duplicate capabilities by establishing DLA as the materiel handler at DoD's industrial sites. Going forward, the JRIMM principles we are leveraging on Oahu are being embedded in our BRAC plan for Supply & Storage consolidation.

Another example of the alignment of BRAC mandates with our program principles is in the area of strategic commodity management. Commodity management is a widely used business best practice, under which items which are purchased from similar suppliers, or share similar technology, are managed as a group. BRAC moved the procurement of reparable items and the respective contracting resources from the Military Services to DLA. This will enable the Department to take advantage of its purchasing leverage, and it will also enable the Services and DLA to better collaborate in developing a common strategy for like items, rather than managing our tens of billions of procurement of weapons system support parts as individual items. The execution of these strategies will be facilitated by the fact that there is now one procuring organization, instead of five.

Capabilities Plan and Logistics Road Map

The GAO has identified the lack of a “comprehensive, Departmentwide reengineering strategy” to guide the implementation of the Department’s improvement initiatives. Let me outline how we are developing this strategy.

Mr. Krieg, the Under Secretary of Defense for Acquisition, Technology, & Logistics, has challenged all his direct and extended organization to focus on their respective customers, to understand their needs, and to improve the level of service we provide. In the case of the logistics organization, our customer clearly is the warfighter, and the support we provide is ensuring that he or she has the right materiel at the right time at the right place at the right price. In addition to implementing the initiatives in the

Supply Chain Management High Risk Improvement Plan, we are developing a comprehensive logistics strategy. The logistics strategy will incorporate key logistics aspects of the Quadrennial Defense Review, the Joint Staff's Focused Logistics Concept, and the Business Architecture and Enterprise Transition Plan.

As part of the development of the logistics strategy, we are conducting a joint logistics capabilities portfolio test to better support the warfighters' requirements. This portfolio includes all capabilities required to sustain joint force operations. Along with traditional capabilities such as deployment and distribution or operational engineering, other capabilities, such as contracting and personnel services support will be incorporated. The development of the portfolio will build on the success of the DPO effort, and the lessons learned from the Joint Theater Logistics initiative in Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF) will be utilized.

The joint logistics capabilities portfolio test will address governance in a way that facilitates integrated decision-making at every level. Roles and authorities invested across the governance structure will be clear and transparent. Finally, the test will ensure that the process to "govern" this portfolio is focused on delivering the outcomes the Joint Force Commander needs. The results of the test along with operational support lessons learned and the initiatives contained in our Supply Chain Management High Risk Improvement Plan will then be incorporated in the comprehensive logistics strategic plan.

Dedicated Focus on Progress

In July 2005, Mr. Krieg led an initial session to discuss each of the DoD initiatives contained in the Supply Chain Management High Risk Improvement Plan. Since that time, there has been a concerted and structured effort to keep GAO, OMB and Congressional staff and senior leaders apprised of our progress and challenges.

The structures we have put in place to facilitate communication on the initiatives include:

1. An in depth briefing each month on a key initiative by the leader of that initiative with GAO, OMB, and Congressional staff.
2. A summary report, updated monthly, listing accomplishments, milestones and challenges for each initiative.
3. A quarterly meeting, as needed, of senior leaders from DoD, GAO, OMB, and Congressional staff to discuss any problem areas. It is indicative of the positive status and strong communication that both sides have determined this meeting was not necessary in each of the past two quarters.
4. Regular updates to Mr. Krieg and the Deputy Under Secretary of Defense for Logistics and Materiel Readiness, Mr. Jack Bell, on our progress. Change management begins at the top, and our senior leaders are deeply involved in addressing our efforts in the high risk areas.

Ultimately, the proof of this process will be in our outcomes and the translation of these outcomes into improved performance and better risk management. We continue to implement our transformational strategy, of which the Supply Chain Management High

Risk Improvement Plan is one component. As we broaden the breadth and scope of the implementation, measurable improvement in performance metrics will occur.

Conclusion

In summary, again I thank you Mr. Chairman for the opportunity to testify today on the important issues associated with DoD supply chain and logistics. I hope my testimony has provided you with a solid understanding of our progress in this area and our willingness to work with other national-level stakeholders to continue to improve our effectiveness, efficiency, and, accountability. I look forward to continuing to work with you to improve our processes and request your continued assistance in providing our military forces with the logistics support they need and deserve.

Thank you and I would be happy to answer any questions you and the Members of the Committee may have.