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**TESTIMONY OF  
KENNETH J. KRIEG  
UNDER SECRETARY OF DEFENSE  
(ACQUISITION, TECHNOLOGY & LOGISTICS)  
BEFORE  
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT,  
THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA  
OF THE  
SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL  
AFFAIRS  
OCTOBER 6, 2005**

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

**The Honorable Kenneth J. Krieg  
Under Secretary of Defense  
(Acquisition, Technology and Logistics)**

Chairman Voinovich, Senator Akaka and Members of the Committee:

Thank you for the opportunity to appear before you and discuss the status of the Department's supply chain and logistics. I welcome this opportunity because I know you are committed, as I am, to providing our soldiers, sailors, airmen, and marines with the best logistics support this nation is able to provide. Likewise, it is our obligation as leaders, decision makers, and policy developers to provide our warfighters with the tools, 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 logistics

Before I address those areas, I am delighted to join my colleagues, Clay Johnson, and Bill Solis, here today. I am working with them to aggressively address those Government Accountability Office High Risk Areas under my purview – including Business Transformation and Supply Chain Management. In the past 60 days, our staffs have formalized plans with appropriate milestones and metrics to reduce risks in these areas critical to DoD. Additionally, within the last week the Department submitted to Congress our Business Enterprise Transition Plan (ETP). The ETP presents the roadmap

for transforming the business operations of the Department. Specifically, this plan describes a business transformation strategy properly aligned with the warfighting mission, a process centered on achieving business priorities with specific results-based outcomes, and the mechanisms that will guide implementation. These plans are a good start, and the commitment of the organizations to work together to strategically determine remediation courses, milestones, and metrics is a real innovation. The Department is focused on concerted implementation, leading to the results that our warfighters and taxpayers deserve.

I would like to take just a few minutes to recognize the efforts of our DoD logisticians. Recently, our civilian and uniformed logisticians successfully supported complex military operations, humanitarian relief associated with the Tsunami, and, more recently, humanitarian relief along our own Gulf Coast. This group of dedicated and professional logisticians is the only group in the world that could have successfully undertaken these efforts. With the help of this Committee, the nation has crafted a world-class military logistics system, and our men and women are recognized as such! The Department also sees the opportunity for improvement as we look to the future. We are on a clear path to achieve world-class logistics capability and to maintain our comparative advantage in power projection and sustainment.

Finally, the Department has clearly heard the call for action from this Committee and other members of Congress. We are in the final stages of issuing revised guidance on Contractors Accompanying the Force; we are pursuing leading-edge commercial procurement practices through efforts to integrate supply procurement; we are actively

developing an integrated logistics transformation strategy; and we are improving our support to deployed forces to include improved supply availability, reduced re-supply times, and smaller, more agile operational supply lines. I will provide specific examples of progress in these areas throughout the remainder of my testimony.

### **Current DoD Logistics Performance and Structure**

The current state of DoD logistics is very strong. In terms of our core business, to project and sustain US military power, we continue to demonstrate outstanding performance under the most severe conditions. While supporting engaged forces in Afghanistan and Iraq, we executed the largest humanitarian airlift since the Berlin airlift in support of Tsunami relief. Most recently in support of other local and federal authorities, the DoD and National Guard deployed 68,000 troops and 400 aircraft to the Gulf Coast. Those personnel and equipment, along with the Coast Guard, rescued 49,000 people, evacuated 26,000 people, and treated 22,000 patients while airlifting 51 million pounds of relief supplies and 21.5 million (M) meals-ready-to-eat.

Simultaneously with current operations, we are improving our business processes that support those operations. Thanks in part to continued resource support from Congress, we are realizing historically high materiel availability to meet warfighter needs with historically low backorders and cost recovery rates. To further enhance support to forces deployed in Iraq and Afghanistan, we have established a joint deployment and distribution operations center and a forward-deployed warehouse in Kuwait. Combined, these efforts have significantly reduced warfighter wait time by over 50 percent for critical Army parts and reduced transportation costs by over \$400M by reducing reliance

on more expensive air transportation into theater and relying more on cost-efficient surface transport.

When we look at the DoD supply chains, we can see we are dealing with a big business. The DoD logistics workforce is just over 1 million personnel (active duty, reserve, and civilian), managing an inventory valued at approximately \$77 billion. To appropriately manage that business, we have two fundamental responsibilities:

1. To provide our warfighters the best support possible within the resources the Congress provides us, and
2. To be faithful stewards of those resources and ensure the taxpayers are receiving the best value for their money, in terms of outcomes and cost.

I have briefly highlighted current DoD performance associated with the first responsibility. Let me take a few minutes now on the second area.

### **Ongoing Efforts**

The DoD has made several logistics improvements to enhance efficiency and accountability, from 2001 to today:

- We improved "factory-to-foxhole" distribution capabilities by expanding US Transportation Command's (TRANSCOM) role to include synchronization of end-to-end distribution. Through partnerships across our Combatant Commanders, Military Services, and the Defense Logistics Agency (DLA), we smoothed materiel flows into Iraq and Afghanistan via a Joint Deployment Distribution Operations Center and dramatically improved return flow to our depots. Currently, we are developing an integrated blueprint for distribution

systems modernization.

- We implemented life cycle management and performance-based logistics (PBL) for new weapons programs. Logistics support of our defense systems consumes approximately 80 percent of our logistics resources. Life cycle management and PBL are directed toward reducing demands, through improved equipment reliability and maintainability; integrating support by focusing on outcomes, such as equipment availability; and infusing accountability by holding our program managers and industry directly accountable across the sustainment phase.
- We demonstrated the benefits of leading commercial process improvements across our industrial and depot operations. For example, the Air Force reduced depot maintenance time on the KC-135 from 427 days to 205 days; the Navy reduced depot time on the 404 engine, which powers the F-18 Hornet, from 65 days to 30 days; and the Army slashed depot maintenance time on the T-700 engine from 261 days to 100 days. These efforts place assets back in the hands of our customers much faster and will enable us to reduce inventory over time.
- We implemented active Radio Frequency Identification (RFID) on all loaded ocean containers and air pallets moving through our distribution system into Iraq and Afghanistan. Like many leading commercial companies, DoD embraced the use of RFID to provide asset management and visibility in our supply chain. This enables our customers to track inbound materiel in near-real time and avoid duplicate ordering.

- We committed to employing best-in-class supply chains and supply chain practices. For items in five key areas – food, fuel, medicines, clothing, and common shop materials – we use commercial supply chains today, hold limited inventory, and are realizing 24-48 hour response times. For more military-unique items, we are moving towards consolidated purchasing and strategic buying practices, consistent with OMB guidance. Our efforts in this area will be greatly enhanced by implementation of the Base Realignment and Closure (BRAC) Commission recommendation to consolidate procurement of tires and depot-level repairables within DLA.

In addition, we are reviewing our supply chain efforts as part of our Quadrennial Defense Review (QDR). Lieutenant General Duncan McNabb, who is currently serving on the Joint Staff as the Director of Logistics, is co-chairing QDR business practices with me. We are working business practices as part of strategy development. The work that Duncan and I have underway includes five broad business areas, including (1) supply chain, (2) medical readiness and performance, (3) acquisition – not little “a,” or how you procure, but big “A,” thinking through demand and supply, and then tying it to logistics over time – (4) strategic process integration, or tying planning to resource allocation and execution management, and finally, (5) corporate governance.

After reviewing the Department’s supply chain business practices against the emerging strategy, we concluded current initiatives were necessary but not sufficient to fulfill our two primary responsibilities. So we took a more aggressive approach to logistics performance and accountability. Before I summarize those emerging actions, let

me set the stage based on near-term national security and budgetary challenges.

### **Emerging Challenges**

Recent and current world events have demonstrated the challenges that will face our national security structure for the foreseeable future. A few of those challenges include:

- An increasing operational need for speed and agility in our military response to threats and disasters. This need dictates that we have logistics processes that are as rapid and agile as our maneuver forces.
- Continued uncertainty in terms of threats, both manmade and natural. This uncertainty demands that we maintain a heightened level of military readiness and industrial preparedness.
- Increasingly mobile, distributed coalition forces. Effective sustainment of those forces demands that we migrate to a vertical distribution system at the tactical level that is reliable and secure.
- Increasing expectations from the American taxpayers for rapid, effective response to both manmade and natural disasters that includes comprehensive, cost-effective logistics support.
- Growing recognition that we must reduce the demand for logistics and its associated cost so we can afford to address other national security priorities, such as modernization.



- Clear accountability for resources and outcomes, particularly in the area of logistics which is funded, as you know, primarily with Operations and Maintenance (O&M) money. Execution of these funds is distributed across every camp, base, and station in DoD.

I highlight these challenges because our recent experience demonstrates that speed, agility, and effectiveness cannot be achieved without clear resource and outcome management. To provide our forces with the most effective logistics support, we must achieve the most efficient logistics support. Achievement of both objectives will enable DoD to transform its comparative advantage into a true offensive weapon, driven by outcome performance and enabled by transparent accountability.

### **Near-Term Actions**

To better achieve those objectives, we initiated several focused tasks as part of our ongoing business transformation. I would like to share with you a sense of our current thinking along five major lines:

1. Use benchmarking to improve performance. Over the next few months, we will deploy a focused benchmarking program across our supply chain operations, by product line, such as aircraft parts, large vehicles, ships, food, electronics, and clothing.
2. Accelerate and expand some strategic initiatives including:
  - Codify the roles, responsibilities, authorities, and performance expectations across our distribution process over the next year.

Included will be the development and resourcing of a joint distribution

analysis center at TRANSCOM to facilitate continuous improvement.

- Expand our application of life cycle management and PBL to appropriate legacy systems to enhance reliability and improve support of our existing systems in the near-term. Utilizing reliability growth and enhanced health monitoring equipment, the Army demonstrated an 89 percent reduction in manhours Black Hawk helicopter main rotor track and balance tasks in Iraq. Employing PBL, the Navy demonstrated 90 percent availability for the F-404 engine..
- Deploy a consistent, integrated continuous improvement program across all DoD processes by building on the positive results in our industrial operation..
- Initiate commercial standard passive RFID down to the box level so that we gain comprehensive visibility across our end-to-end supply chains. Using RFID in this end-to-end application, the Marine Corps II MEF in Iraq recently demonstrated a reduction in inventory from \$127M to \$70M, reduced wait times from 28 days to 16 days, and an increased fill rate from 77 percent to 89 percent..
- Build upon our successful application of commercial supply chains at DLA and apply similar practices for war reserve consumable items -- enabling us to draw upon the commercial market for surge requirements while reducing our need to hold war reserve inventory.

3. Develop a consistent, defensible framework that links resources to outcomes. This framework will provide clear, fact-based insight into issues associated with the resources provided by this body and outcomes from application of those resources. When fully implemented, it will enable accountability and performance improvement.
4. Link the results of the prior tasks directly to our military capability to project and sustain forces through our requirements process. This effort will be a longer run activity, but it will allow us to link for the first time our gains in business efficiency to the effectiveness of our core mission. It will also provide strategic performance goals for our key logistics capabilities that we will use to guide both capital investment and process improvements.
5. Finally, baseline our logistics business systems modernization efforts to be consistent with our broader business transformation efforts. This effort will enable better materiel control and accountability.

I look forward to continuing discussions on these areas with this Committee. My staff is proactively engaged OMB and GAO on our efforts and will continue to use the OMB/GAO high-risk remediation plan as a mechanism to document our action plans and track our implementation efforts.

### **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 believe our strategic actions are responsive to the needs of the taxpayers, consistent with the recommendations of GAO and OMB, and aligned with the intent of this Committee. 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.