

**Report to  
Office of Management and Budget**

**Department of Defense  
Strategic Sourcing Initiatives**

**FY 2008 Update**



**May 2009**

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# PART A

## DEPARTMENT OF DEFENSE

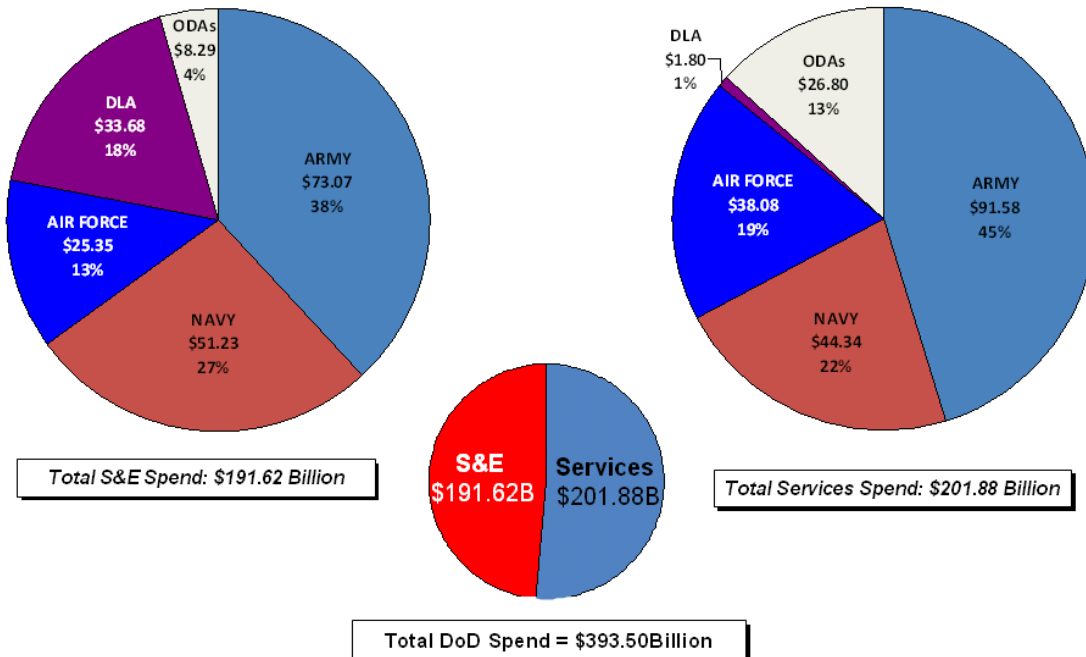
### EXECUTIVE SUMMARY

### OF

### STRATEGIC SOURCING

#### 1. OVERVIEW

In FY 2008, DoD spent \$393.5 billion for goods and services, as captured below, across 3.6 million actions and harnessed momentum to expand its strategic sourcing vision to identify the *best* approaches for strategically sourcing goods and services. DoD reinvigorated the Strategic Sourcing Directors Board and focused on analyzing spend data, writing strategic plans for strategic sourcing, and implementing initiatives to change DoD acquisition behaviors to achieve significant results. DoD completed its second comprehensive spend analysis of services and wrote a strategic plan to guide the defense components in driving behaviors to buy services more strategically. In FY 2009, DoD completed its first comprehensive spend analysis of supplies and equipment and will implement a corresponding strategic plan. When combined with the Strategic Plan for the Strategic Sourcing of Services, DoD will have its first comprehensive roadmap for strategically sourcing goods and services. Implementing the goals and objectives in these two plans will assist in changing the behaviors of the acquisition workforce in the DoD enterprise.



## **2. GOVERNANCE**

The Strategic Sourcing Directors Board (SSDB) provides strategic vision, guidance, and direction that enables and promotes strategic sourcing DoD-wide. The Board took an active role in developing the Strategic Plan for the Strategic Sourcing of Services. The Primary Members and Advisors, acting as change agents, are implementing the Department's strategic sourcing vision, goals, and objectives via initiatives throughout their own organizations. The Board facilitates collaboration across the Department to share innovative initiatives and to achieve increased cost savings, process improvements, and socio-economic participation.

In FY 2008, the Defense Procurement and Acquisition Policy, Office of Strategic Sourcing (DPAP/SS) formalized a charter outlining board member roles and responsibilities and hosted the first SSDB meetings since reorganization. The Deputy Director in DPAP/SS chairs the SSDB meetings held every six weeks. Primary board membership consists of strategic sourcing leads from the Military Departments (MILDEPs) and select Other Defense Agencies (ODAs). Advisors to the Board, including DoD's Office of Small Business Programs (OSBP) and the Defense Acquisition University (DAU), provide subject matter expertise integral to successfully implementing strategic sourcing within the defense enterprise.

## **3. ENTERPRISE-WIDE STRATEGIC SOURCING ANALYSIS AND PLANS**

In the Department of Defense the foundation for strategic sourcing is spend data and portfolio analysis and management. The spend analyses play a critical role in DoD acquisitions as they provide transparent, powerful information that MILDEPs and ODAs can use to assist in making strategic sourcing decisions. Both commercial organizations and the federal government rely on spend analyses to evaluate spend patterns in order to identify what the organization is buying, how they are buying it, and from what suppliers. DPAP/SS provides yearly spend analyses on services and supplies and equipment to each defense component to enable their strategic sourcing efforts. Over time, the reports will begin to show trends. This knowledge and understanding can identify the right and wrong results from strategic decision-making and enables organizations to improve their approaches to sourcing goods and services.

DoD is working to instill strategic sourcing into its acquisition culture - to change buying behaviors and to increase workforce sourcing competencies. PEOs and program managers are accountable for the acquisition of major defense acquisition programs. But, outside of this management framework, there is no established structure to manage the billions of dollars of other goods and services. The goods not under structured management and the services procurement spend, alone constituting over 50% of DoD's total procurement spend, make the "other" billions of dollars the majority. This substantial amount of spend demands a management structure to strategically source these goods and services. Portfolio management provides a solution. It drives insight and collaboration, increases data transparency, and helps acquisition personnel build deeper functional skills by allowing them to specialize in grouped like-services/commodities.

The following pages will examine the steps DoD has taken in regards to services as well as supplies and equipment.

**Strategically Sourcing Services**

DPAP/SS delivered a DoD-wide spend analysis for services acquired in FY07 and institutionalized the concept of portfolios for managing services spend. The Senior Procurement Executives (SPEs) across the MILDEPs and ODAs were presented the spend analysis and immediately recognized the benefits of the analysis in furthering strategic sourcing decision-making and results. DoD components will use this spend analysis as a starting point for making strategic decisions regarding the best approaches for buying services. For example, USSOCOM saved \$200K in contractor costs by using this analysis. Instead of tactically acquiring analyses of specific commodities, organizations within the Department will save approximately \$13.8 M by initiating their respective analyses with the DoD-wide available analysis. Implementation of opportunities highlighted in the spend analysis will save additional millions in the out years.

Because services constitutes a large portion of the “other” spend, DPAP initially defined a portfolio approach to analyze and manage DoD procurement spend for services. DPAP developed eight service portfolios by combining similar Product Service Code (PSC) Groups identified in the DoD Procurement Coding Manual into higher level categorizations that logically fit together based on factors central to strategic sourcing, including: the nature of services provided, the suppliers that provide the services, the complexity of sourcing the services, and the expectations that similar services could be sourced by the same groups of personnel using comparable processes and business arrangements. The SPEs have endorsed this approach for the acquisition of services. The following table represents the DoD portfolio approach to services.

Portfolio	PSC Categories	PSC Groups
Knowledge Based Services	Management Support Services	<ul style="list-style-type: none"> <li>▪ B: Special Studies and Analysis</li> <li>▪ R: Professional, Admin and Management Support</li> </ul>
	Other	<ul style="list-style-type: none"> <li>▪ T: Photo, Mapping and Print</li> <li>▪ U: Education and Training</li> </ul>
ADP & Telecom Services	Automation and Telecommunication Services	<ul style="list-style-type: none"> <li>▪ D: ADP &amp; Telecom</li> </ul>
Facility Related Services	Facilities Maintenance	<ul style="list-style-type: none"> <li>▪ M: Operations and Facilities</li> <li>▪ S: Utilities and Housekeeping</li> <li>▪ Z: Maintenance, Repair or Alteration of Real Property</li> </ul>
	Purchase and Lease of Facilities	<ul style="list-style-type: none"> <li>▪ E: Purchase of Facilities</li> <li>▪ X: Lease or Rental of Buildings</li> </ul>
	Architect / Engineering	<ul style="list-style-type: none"> <li>▪ C: Architect / Engineering</li> </ul>
	Natural Resource Management	<ul style="list-style-type: none"> <li>▪ F: Natural Resource Management</li> </ul>

	<b>Social Services</b>	▪ <b>G:</b> Social Services
<b>R &amp; D</b>	<b>Research and Development</b>	▪ <b>A:</b> Research and Development
<b>Equipment Related Services</b>	<b>Maintenance, Repair and Overhaul</b>	▪ <b>J:</b> Maintenance, Repair and Rebuilt ▪ <b>K:</b> Modification of Equipment ▪ <b>L:</b> Technical Representative Services ▪ <b>P:</b> Salvage Services
	<b>Equipment Installation and Lease</b>	▪ <b>N:</b> Installation of Equipment ▪ <b>W:</b> Lease / Rental of Equipment
	<b>Quality Control</b>	▪ <b>H:</b> Quality Control, Test, Inspection
<b>Construction Services</b>	<b>Construction of Structures and Facilities</b>	▪ <b>Y:</b> Construction of Structures and Facilities
<b>Transportation Services</b>	<b>Transportation, Travel, and Relocation</b>	▪ <b>V:</b> Transportation, Travel, and Relocation Services
<b>Medical Services</b>	<b>Medical Services</b>	▪ <b>Q:</b> Medical Services

In FY08, the top 3 service portfolios, accounting for 61% of \$201.9 B in services spend, were:

- **\$ 45.14 B for Knowledge Based Services (22%)** (includes Professional, Admin and Mgt. Support; Special Studies and Analysis; Education and Training; Photo, Map, Print and Publication)
- **\$ 43.06 B for Research and Development Services (21%)**
- **\$ 37.06 B for Construction Services (18%)**

In FY07, the top 3 service portfolios, accounting for 63% of \$171.6 B in services spend, were:

- **\$ 43.7 B for Research and Development Services (25%)**
- **\$ 40.1 B for Knowledge Based Services (23%)** (includes Professional, Admin and Mgt. Support; Special Studies and Analysis; Education and Training; Photo, Map, Print and Publication)
- **\$ 24.7 B for Facility Related Services (14%)** (includes Architect and Engineering; Purchase of Facilities; Natural Resources and Conservation; Social Services; Operation of Facilities; Utilities and Housekeeping; Lease or Rental of Buildings; Maintenance, Repair or Alteration of Real Property)

It is the intent that the portfolio structure will change acquisition behaviors across the Department of Defense to deliver strategic and innovative solutions that achieve results.

***The Strategic Plan***

As a result of the FY 2006 and 2007 services spend analyses, DPAP/SS, in coordination with SSDB members and advisors, implemented a Strategic Plan for the Strategic Sourcing of

Services. It is the intent that implementation of the goals and objectives will help transform a culture that predominantly executes tactical purchases to a culture that executes strategic solutions to meet the needs of our warfighters. These goals and objectives map to the AT&L strategic thrusts and goals and, in turn, drive the MILDEPs and ODAs toward results. This ensures that the individual initiatives are not only responsible and accountable to DPAP but also to the DoD's chief acquisition officer (AT&L).

The Strategic Plan for the Strategic Sourcing of Services does not limit the DoD to a single model or a six step process for strategic sourcing. The Strategic Plan for Strategic Sourcing of Services reinforces the key principals of strategic sourcing, including collaboration, transparency, and strategic decision-making. The plan does institutionalize the portfolio approach to understanding and implementing strategic solutions to acquire over \$200 B of services. DPAP/SS and SSDB members and advisors crafted specific goals and objectives to drive these behaviors to achieve the vision of *Institutionalizing Strategic Sourcing across the DoD Supply Chain to Better Meet Warfighter Needs and Maximize Taxpayer Value*. Agreed upon goals for the strategic sourcing of services are:

1. Enhance DoD Components and Other Agency Sourcing Collaboration;
2. Foster a Culture of Strategic Decision-Making with respect to Acquisition of Goods and Services;
3. Leverage and Optimize Data and IT Systems to Increase Enterprise Transparency; and
4. Develop, Train, and Organize an Enterprise to Support Strategic Sourcing.

**1. Enhance DoD Components and Other Agency Sourcing Collaboration:** Successful strategic sourcing programs require extensive collaboration and coordination, often focusing on specific commodities. Collaboration in the upfront planning of acquisitions yields uniform procedures; comprehensive, enterprise-wide requirements; better use of procurement dollars and resources; greater transparency; as well as increased opportunity to leverage other business arrangements already in place. The following objectives will drive actions that will establish and enhance collaboration across DoD components and other agencies.

**1.1 Develop governance/policy to enhance collaboration:** The appropriate tools and policy must be in place to facilitate working together. Having governance/policy in place will ensure that the enterprise perspective is accounted for in the upfront planning of an acquisition. The acquisition workforce will act in a unified manner, versus that of a traditional stovepipe, when making decisions. DPAP will work to implement the appropriate governance/policy to enhance collaboration among DoD components and other agencies.

**1.2 Develop communication enablers to support collaboration:** Collaboration requires communication. The Department must develop communication enablers that make sharing information on requirements and business arrangements easier, as the upfront planning piece of acquisitions requires the most collaboration. With these enablers, strategic sourcing can evolve across the DoD supply chain to create solutions that are in the best interest of the enterprise.

**1.3 Increase collaboration across the supply chain:** Improving pre-acquisition planning across the defense components can reduce extraneous efforts that cause strains on our workforce as well as our suppliers who must submit multiple RFPs. By working together on requirements generation, the various defense components are able to build collaborative partnerships and develop strategic sourcing solutions that reduce redundant contracts as well as improve industry relations and warfighter support.

**2. Foster a Culture of Strategic Decision-Making with respect to Acquisition of Goods and Services:** Fulfilling an urgent need for services and supplies is mission critical in our business. We have demonstrated our ability to acquire services on an as needed basis and accelerate the time between acquisition planning and contract award when necessary. However, this approach to service acquisition is reactive and leaves little time for developing sufficient requirements. The acquisition enterprise needs to shift from reactive to proactive and instill a culture in which strategic decision-making is a way of doing business, in which timeliness is balanced with quality, and in which the workforce automatically thinks what is best for the total enterprise. In order to achieve this goal, DoD will accomplish the following objectives.

**2.1 Develop and execute a change management plan for strategic sourcing:** Driving a workforce to shift from a tactical and reactive culture to a strategic and proactive culture requires change management. Change management moves the workforce from awareness to understanding to ownership of the change. Each defense component must execute change management strategies to educate the workforce concerning the importance of sourcing strategically and motivate the workforce to lead the change by example.

**2.2 Establish and use a portfolio management structure:** The Department needs a way to manage services strategically and effectively. Establishing a portfolio management structure will help eliminate tactical processes, foster a center of excellence for strategic acquisitions and collaboration, and improve transparency of business arrangements. Portfolios will focus the workforce on specific commodities to drive business solutions that support the industrial base while leveraging the supply chain comprehensive solutions that meet the requirements and needs of the warfighter. The portfolio analysis permits focused spend analysis by MILDEP and agencies that will help identify lessons learned. Each component and ODA needs to identify a portfolio structure that makes sense in their respective environments and implement that structure to foster a culture of strategic decision-making.

**3. Leverage and Optimize Data and IT Systems to Increase Enterprise Transparency:** Contracting Professionals need to understand what the requirement is, who needs it, who provides it, what is the best way to acquire it, what is the best price and/or quality, and what are lessons learned from previous purchases to make strategic decisions and negotiate with suppliers. Transparency is also for the suppliers and taxpayers. DoD relies on suppliers to perform forecasting based on demand. In order to achieve our vision, the DoD must first leverage and optimize data and IT systems. The following objectives will help to accomplish this goal.



**3.1 Optimize existing data systems:** Before data becomes powerful, the information first must be accurate and available. Acquisition leaders across the Department have, in the past, struggled to obtain accurate, real-time data on where and how limited procurement dollars were spent, inhibiting timely and strategic decision-making. Today, several data systems exist, but the data within the systems must align with the needs of the acquisition community. As such, optimizing the systems and data within the systems is critical to institutionalizing strategic sourcing across the DoD supply chain.

**3.2 Educate and train workforce on IT and IT upgrades:** This objective addresses the use of the data and IT systems that collect the data. The acquisition workforce must be trained and knowledgeable on any appropriate and applicable systems in order to ultimately optimize use of the data. By utilizing the data, the acquisition workforce gains the power and visibility to make better business decisions that maximize procurement dollars, resources, and warfighter support.

**3.3 Establish a strategic sourcing web portal:** Organizations invest in knowledge warehouses to allow the transfer of documents and deliverables to all employees within the organization. DoD needs a central repository for strategic sourcing that will house key practices, tools, templates, business arrangements, documents, and links so that agencies can learn from one another and leverage work products. Centralizing this information will also help to ensure that standards are maintained and best practice implementation is consistent across the Department.

**4. Develop, Train, and Organize an Enterprise to Support Strategic Sourcing:** It is critical to have a developed, trained, and organized enterprise to apply the best approaches to strategically sourcing services. The following objectives will ensure DoD meets this goal to achieve its strategic sourcing vision.

**4.1 Identify and develop workforce strategic sourcing skills and competencies:** In order to institutionalize strategic sourcing into the workforce, the Department must first identify what skills are necessary to strategically source. Once these skills are identified, the Department needs to make conscious efforts to recruit and retain those in the acquisition workforce that exude the characteristics and competencies needed to perform strategic sourcing. The Department needs to encourage the professional development of the workforce skilled in strategic sourcing in order to give the Department traction in institutionalizing this tenet of supply chain management.

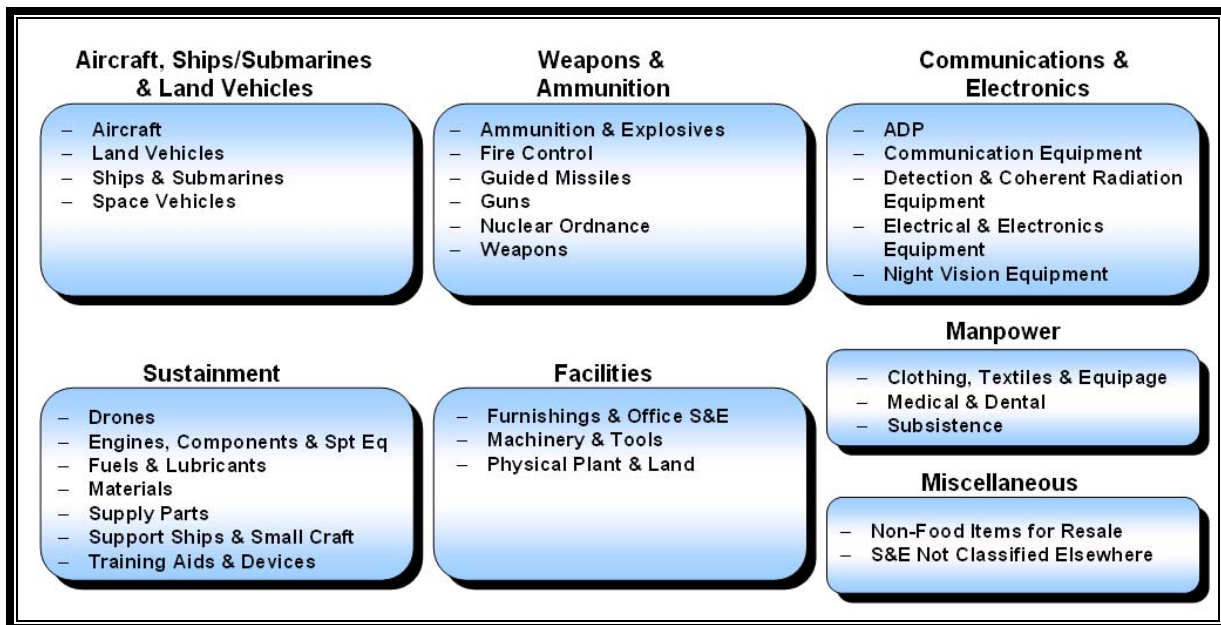
**4.2 Develop education and training to support strategic sourcing:** Changing behavior to focus on strategic purchases and planning requires additional training for impacted personnel. In order to achieve our vision, the acquisition workforce must have a comprehensive understanding of what strategic sourcing involves and the types of solutions and results the Department hopes to garner from strategic sourcing. The basic first step is to create awareness tools and briefings, but the Department must also develop more in-depth educational tools and integrate strategic sourcing curriculum into current classroom courses.

**4.3 Develop organizational structure to support strategic sourcing:** The right structure can facilitate strategic sourcing, but there is no one set structure to strategically source. Successful structures to support strategic sourcing can range in appearances. For example, the workforce may be regionalized to gather requirements and address local suppliers, or the workforce may be focused around centers of excellence, such as Knowledge Based Services, to specialize in one or two specific commodities. Identifying and implementing an organizational structure that will focus the acquisition workforce will strengthen their skills not only in the type of contracting but also the type of requirements. In addition, these competencies can yield strategic solutions, and, ultimately, over time the structure helps to achieve the vision.

Over the next two years, the MILDEPs and ODAs will implement initiatives to achieve these goals and objectives so that the Department may reap results that maximize procurement dollars, resources, and warfighter support. Future reports will highlight the initiatives mapping to these goals.

***Strategically Sourcing Supplies and Equipment***

DPAP/SS initiated the first enterprise-wide spend analysis for supplies and equipment, based on FY 2007 spend data. The final analysis was completed in December 2008. MILDEPs and ODAs will use this information to understand spend patterns and identify opportunities for efficiency and effectiveness. DPAP/SS developed seven portfolio groups for analyzing supplies and equipment. DPAP/SS defined the portfolios on the basis of similarities of the nature, type, and physical characteristics; manufacturing level (raw materials to completed end-items); intended use or application (air, land, sea, or space); and industry sector or segment involved. The portfolios for supplies and equipment are identified in the following picture:



In FY08, the top 3 portfolio groups, accounting for 70% of supplies and equipment spend, were:

- **\$ 67.72 B for aircraft, ships/submarines and land vehicles (35%)**
- **\$ 40.61 B for sustainment S&E (21%)**
- **\$ 26.33 B for electronics and communications (14%)**

In FY07, the top 3 portfolio groups, accounting for 69% of supplies and equipment spend, were:

- **\$ 51.2 B for aircraft, ships/submarines and land vehicles (32%)**
- **\$ 36.1 B for sustainment S&E (22%)**
- **\$ 24.3 B for electronics and communications (15%)**

Together, the spend analyses of services as well as supplies and equipment provide the Department with a 360-degree view of its entire spend segmented in well-defined portfolios for easier management. In addition, this analysis serves as the foundation for drafting a Strategic Plan for the Strategic Sourcing of Supplies and Equipment (to be finalized in FY09). When combined with the Strategic Plan for the Strategic Sourcing of Services, DoD will have its first comprehensive roadmap for strategically sourcing supplies and equipment and services.

#### **4. ENTERPRISE-WIDE STRATEGIC SOURCING RESULTS**

DPAP focused on several key initiatives to drive strategic sourcing results across the DoD supply chain, including a reduction in the inappropriate use of Time and Materials contracts, an increase in the use of AbilityOne suppliers, and an emphasis on introducing use of spend analyses and strategic solutions during peer reviews.

##### ***Time-and-Materials Contracts***

Contracts that expose the government to increased risk, such as no positive profit incentive to the contractor for cost control or labor efficiency<sup>1</sup> or that place additional administrative burden for the necessary government surveillance<sup>2</sup> do not ensure a quality deal for the taxpayers. Time-and-Materials (T&M) is the least preferred and most risky contract type. T&M has a distinctive role in government contracting, specifically when it is not possible for the contracting officer at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence. However, there are instances, when T&M is used repetitively without a plan of action to minimize the use of time-and-materials contracts on future acquisitions for the same requirement, as required in the Defense Procurement Acquisition Regulation Supplement (DFARS). To balance DoD's risk with the quality of the deal, DPAP issued a goal to limit the use of T&M for requirements that meet the specified limitations of the FAR and DFARS. In order to understand the magnitude of T&M use, DPAP relied on spend analyses to identify contracting activities with T&M use exceeding 10% of their procurement spend. In response, the activities validated the numbers and ensured policies and procedures were in place to avoid future excessive use of this risky, expensive contract type. As a result, contracting activities will achieve an estimated savings of \$260 M in

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<sup>1</sup> FAR 16.6

<sup>2</sup> FAR 16.6

FY09. DCMA is an example of success - reducing T&M obligations from 30% in FY07 to 9% in FY08, resulting in savings of \$1.6 M.

### ***AbilityOne***

In FY 2007, Department of Defense obligated \$1.8 B dollars (0.6%) of \$332 B to AbilityOne suppliers. DoD's increase in contract awards to the AbilityOne Program has the direct and positive result of increasing job opportunities for individuals who are blind or have other severe disabilities including DoD's own service-disabled veterans who have transitioned to the AbilityOne program.<sup>3</sup> In August 2008, DPAP issued a Department-wide memo urging DoD contracting officials to make a personal commitment to consider the AbilityOne Program when fulfilling procurement needs.<sup>4</sup> In response, DPAP/SS leveraged DoD spend analyses to target opportunities to increase contract awards to AbilityOne. DPAP communicated potential opportunities to the SPEs and established a baseline of AbilityOne awards in order to track progress. DPAP/SS did not limit the challenge to increase AbilityOne awards internally to the Department. DPAP/SS facilitated a meeting between AbilityOne and the Veterans Affairs to baseline current AbilityOne awards for medical commodities.

Due to legislative requirements associated with the AbilityOne processes, the procurement administrative lead time (PALT) for services is, at times, inefficient and cumbersome. A lean six sigma project was initiated to evaluate the PALT and identified methods to increase efficiency. The project concluded that utilizing existing DoD e-procurement tools will streamline the award process for AbilityOne services contracts. Automating the AbilityOne services awards process will increase visibility and use by DoD contracting officers. Discussions were initiated with the Navy to leverage a tool similar to Navy SeaPort-e for AbilityOne contractors. That initiative continues in FY09.

### ***Peer Reviews***

Recent legislation established requirements for post-award independent management reviews of contracts for services and for sharing lessons learned from those reviews. As a result, Peer Review procedures were established to address this statutory requirement. The objective of the Peer Review is threefold: 1) to ensure Contracting Officers across the Department are implementing policy and regulations in a consistent and appropriate manner; 2) to continue to improve the quality of contracting processes across the Department; and 3) to facilitate cross-sharing of best practices and lessons learned across the Department.<sup>5</sup> This type of activity will help DoD to become less-focused on tactical, expeditious actions and more-focused on strategic and collaborative solutions that will ultimately benefit the warfighter and taxpayer. Peer Reviews, in addition to portfolio management, establish a structure and improves quality. As a result, DoD can maximize strategic solutions to increase DoD's buying power.

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<sup>3</sup> Memorandum, Increasing Contracting Opportunities with the AbilityOne Program, signed 27 August 2008, Mr. Shay Assad

<sup>4</sup> Memorandum, Increasing Contracting Opportunities with the AbilityOne Program, signed 27 August 2008, Mr. Shay Assad

<sup>5</sup> Memorandum, Peer Reviews of Contracts for Supplies and Services, signed 29 September 2008, Mr. Shay Assad

## 5. MILDEP AND ODA STRATEGIC SOURCING RESULTS

The MILDEPs and ODAs are actively involved in strategic sourcing initiatives. Highlights of ongoing and new strategic sourcing initiatives are stated below. Detailed explanations of these and additional initiatives are contained in Part B of this report.

### *Defense Logistics Agency (DLA):*

- Strategic Material Sourcing (SMS): SMS is DLA's strategy to improve the long-term health of items most critical to DLA's customer support. In FY 2008, the SMS program resulted in an average production lead time of 29.4 days compared to 78.6 days for all other Hardware items as well as an increased material availability of 90.69% compared to 80.93% for all other Hardware items.
- Supply Chain Alliances (SCAs): SCAs are long-term partnering agreements with "second-tier" suppliers. The goals of this strategy are to improve communication and to establish long-term contracting arrangements for the items provided by these suppliers in order to improve support for customer requirements. In FY 2008, DLA increased the number and scope of SCAs to expand the gains achieved from strategic alliances to all DLA customers.
- Supplier Requirements Visibility Application: In order to improve the link between supply and demand, DLA developed an automated supplier collaboration tool that allows suppliers to view forecasted demand data. This proactive process assists suppliers in anticipating their production needs, improving relationships with their own suppliers, and being able to quickly react to changing government requirements. The Supplier Requirements Visibility Application provides 24 months of sole source and competitive projected purchase order quantities and is updated monthly.
- Strategic Sourcing of Services: Moving forward, DLA is analyzing how it commercially acquires internal support in order to enhance strategic sourcing for services. Led by the DLA Contracting Services Office (DCSO), this analysis is being conducted to achieve the following:
  - Identify opportunities to increase the efficiency and effectiveness of the DLA funds spent for internal support;
  - Improve resource use by changing how the support is acquired and who acquires it;
  - Improve "Demand Planning" for internal services and supplies; and
  - Leverage buying power and lower internal costs by combining Agency requirements for like items/services.
- Strategic Sourcing for Titanium: In August 2008, DLA hosted a Titanium Symposium to address concerns regarding production lead times, overall availability of material, and pricing levels. DLA plans to award a five-year multi-million dollar long-term contract in FY 2009 that will support the identified titanium requirements of the Army and Navy.

***Department of the Air Force:***

- Landing Gear Commodity Council: The Landing Gear Prime Vendor Contract generated \$1.1 million in cost reduction and anticipates an annual cost reduction of \$8.4 million going forward. The commodity council exceeded its goal of a 90 day ALT and achieved a 69 day ALT in FY08. In addition, it reduced the number of contracts from 378 in FY07 to 149 in FY08. This effort was awarded to 100% small businesses.
- ACC Acquisition Management Integration Center (AMIC): AMIC focuses on integrating processes across a range of acquisitions and is a first ever “center of excellence” dedicated to major service acquisition programs. AMIC documented \$8.6 million in program improvements against \$1.6 million in paid fees.
- Installation Acquisition Transformation (IAT): As the Air Force has begun to implement IAT, each of the regions has identified leads for strategic sourcing. For example, a sub-team conducted a spend analysis for one of the major customers of installation procurement, Civil Engineering, to identify opportunities for strategic sourcing and prioritize areas of focus.
- Education and Training: The Air Force is developing a three-module, just-in-time strategic sourcing training program that allows teams about to begin the strategic sourcing process to develop and retain work products for use.
- Alignment with OSD Strategic Sourcing Goals: The Air Force is supporting the OSD Strategic Sourcing of Services goals (see page 7). Plans exist to stand up a multifunctional team across the Air Force to ensure the customer requirements are understood and the importance of strategic sourcing is understood by all areas within the Air Force. Additionally, the Air Force is actively working to roll out the AFWay II procurement system to leverage IT tools to support strategic sourcing and meet its own goal of streamlining IT processes. Finally, the IAT initiative focuses on implementing the appropriate organization for strategic sourcing, and as part of this effort the Air Force is developing training to ensure the workforce understands and can implement strategic sourcing.

***Department of the Army:***

- IMCOM Municipal Services: The Municipal Services initiative identified two areas of opportunity for Strategic Sourcing - Custodial Services and Refuse/Recycle Services. Total savings over the first 7 years of implementation is estimated to be \$52.9 M and \$30.5 M respectively.
- Proposed Governance Structure: In an effort to leverage and coordinate the numerous strategic sourcing activities already taking place throughout the Army, as well as identify and launch Army-wide strategic sourcing efforts, an Army-wide Strategic Sourcing Governance Structure has been proposed.
- Opportunity Analyses: To provide a complete picture of Army spend and opportunities, data from various opportunity analyses as well as existing efforts will be consolidated and evaluated.

- Centers of Excellence within each Category for Strategic Sourcing: Using the Army-wide spend analysis and the DPAP/SS portfolios, the Army will identify target centers of excellence for strategic sourcing efforts.

### *Department of the Navy:*

- SeaPort-e: SeaPort-e is the Navy's innovative approach to sourcing engineering, financial, and program management support services. The SeaPort-e portal provides a standardized means of issuing competitive solicitations among a large and diverse community of approved contractors, as well as a platform for awarding and managing performance-based task orders. The unified approach allows service procurement teams to leverage their best work products, practices, and approaches across the Navy's critical service business sector. SeaPort-e has generated savings of 7-10% in acquisitions as well as immeasurable process savings – in some cases 25-30%. SeaPort-e now totals \$6.2 billion in funded efforts.
- Governance Structure: NAVSUP serves as the executive agent for strategic sourcing as set forth in the recently approved Navy-wide strategic sourcing governance structure. The goals of the governance structure are:
  - Improve coordination and collaboration across the Department;
  - Ensure key stakeholders are involved in the development and operational execution of strategic sourcing initiatives;
  - Increase the visibility of on-going and future sourcing initiatives;
  - Assign necessary resources to maximize the value of Navy products; and
  - Streamline and standardize processes.
- Maritime Coatings: The Navy began a strategic sourcing initiative on Maritime Coatings in June FY07. The implementation of the sourcing strategy is expected to result in cost avoidance ranging from \$1.8M to \$4.2M, over the next five years. The effort is also expected to result in many non-monetary benefits including reduced inventory, reduced inspection backlog, reduced waste and disposal, reduced contracting backlog, and increased material availability.
- Commercial Enterprise Omnibus Support Services (CEOss): CEOss is a primary contracting vehicle for advisory and assistance services within the Marine Corps Systems Command. This initiative focuses on up-front requirements generation and acquisition planning. Since inception, CEOss has managed \$1.3 billion in awarded value. On average, CEOss manages approximately \$300 million a year in advisory and assistance services spend and monitors the performance of 30 prime vendors. In FY08, CEOss achieved over \$8 million in cost avoidance.
- Garrison Retail Supply System (GRSS): Each base and station has a different GRSS solution to provide routine supplies needed to support Marine Corps operations. As a solution, the Marine Corps entered an enterprise-wide fourth party logistics model that committed GSA and the Marine Corps to a Garrison Retail Supply Chain. This model leverages GSA acquisition expertise and purchasing power for supplies that are not unique to the Marine Corps or DoD. To date, the Marine Corps began implementation of its first two store upgrades with six additional stores by mid year. An additional three

stores with AbilityOne considerations are currently being planned. The Marine Corps has also launched a Virtual ServMart for reduced travel time.

- HAZMAT: In FY08 Marine Corps launched an initiative to develop an enterprise-wide approach to hazardous materials (HAZMAT) from cradle to grave. A holistic look from procurement to waste disposal is being conducted. By integrating the entire process it is expected to achieve reduced inventory, waste, and workload as well as increase asset or hazard visibility.

## **6. FEDERAL STRATEGIC SOURCING PARTICIPATION**

DPAP/SS represents DoD on Government-wide strategic sourcing groups, including the Federal Strategic Sourcing Initiative (FSSI) and the Strategic Sourcing Working Group (SSWG). This involvement fosters communication and collaboration across the Government to share lessons learned, create savings and process improvements, and achieve increased socio-economic participation.

## **7. NEXT STEPS – CONTINUED IMPROVEMENT**

The Department's strategic sourcing focus is on applying the *best* approaches to acquiring goods and services by driving a change in behavior that will maximize taxpayer dollars. In FY09, the Department's contracting activities will align sourcing processes and other approaches to improve acquisitions of goods and services within DoD's portfolios for an enterprise-wide benefit. In collaboration with the DoD Strategic Sourcing Directors Board (SSDB), DPAP/SS identified three initial portfolios: Knowledge Based Services, Sustainment Supplies and Equipment, and Medical Services. As a DoD-wide strategic sourcing initiative, aligning best practices within portfolios facilitates optimum uses for contract types, contract administration, acquisition IT tools, and organizational models with an ultimate achievement of efficiently and effectively meeting mission needs. It also fosters functional skills for the acquisition workforce that support mission requirements within these portfolios.

The next phase of this initiative entails forming joint working groups comprised of senior acquisition professionals with portfolio-specific experience and skills. These joint working groups, with support from the SSDB members and advisors, will review spend, identify best practices within their respective portfolios, and provide recommendations for implementing these best practices across the Defense enterprise.

A specific area of interest is the rate of competition. The Department of Defense continues to place an emphasis on meaningful and effective competition to get the best deal for the warfighters and the taxpayers. In the Department, competed dollars in FY08 represented 64%, or \$252.2 B, of total obligations. Going forward, the Department will focus on driving competition within portfolios and promoting competition best practices. This behavior aligns with President Obama's 4 March 2009 memorandum on Government Contracting regarding responsible competition. An increase in meaningful and effective competition will generate world-class support to the warfighters and result in better deals for the taxpayers.



Direct any questions regarding this report to the Office of Strategic Sourcing at (703) 602-0710.

**PART B**

**DEFENSE ENTERPRISE REPORTS  
ON  
STRATEGIC SOURCING INITIATIVES**

**SECTION 1:**  
**DEFENSE LOGISTICS AGENCY**  
**ANNUAL REPORT ON STRATEGIC SOURCING INITIATIVES**  
**FISCAL YEAR 2008**

**EXECUTIVE SUMMARY**

This report outlines the outcomes of the Defense Logistics Agency's (DLA) strategic sourcing initiatives for Fiscal Year 2008, and discusses the planned and established programs and goals for Fiscal Year 2009. Strategic Sourcing is executed via DLA's Supplier Relationship Management (SRM) Program, which is an overarching strategy to build relationships with key suppliers and leverage industry capabilities. The SRM Program provides a structured approach for managing DLA's strategic initiatives with key suppliers under integrated collaborative partnerships that include both DLA managed and Military Service managed items. The goal of the program is to move DLA from a manager of supplies to a manager of suppliers, and to effectively link customer demands to supplier capabilities. This goal is measured by key metrics gauging DLA and its suppliers' performance in reducing lead-times, reducing costs, improving delivery times to customers, and reducing inventory levels while providing a more agile supply chain management approach to meeting customer requirements.

This report focuses on the primary strategies under the SRM program. The first are Strategic Supplier Alliances (SSAs) and Supply Chain Alliances (SCAs), which are strategic partnerships between DLA and its key suppliers. These alliances provide a partnering structure under which strategic sourcing initiatives are executed with these industry partners. These partnerships are tracked and measured in three ways:

1. The increase in the number of items covered under SSA/SCA long-term contracts
2. The increase in the number of supplier business units (i.e. CAGEs) under each alliance
3. The performance of the supplier and DLA in reducing lead-times and achieving other measurable benefits that streamline and improve support to customers

Another SRM strategy is Performance Based Logistics (PBL) initiatives, which are strategic initiatives that provide enhanced and tailored support to weapon systems, subsystems, or components. Tailored Vendor Relationships (TVR) support specific customers or regions through direct supplier-customer support arrangements. Customers place orders directly with suppliers via DLA long-term contracts using various communication channels such as phone, fax, email and/or the supplier's ordering system.

The primary strategy of the SRM program that determines which items are placed on strategic sourcing initiatives, and thus the primary focus of this report, is the Strategic Material Sourcing (SMS) program. SMS is DLA's strategy to improve the long-term health of items most critical to DLA's customer support, and that are strategically important to DLA's business. These items are

chosen annually based on specific hierarchical criteria supporting customer readiness, sales and demands.

The SMS program focuses on achieving goals in four primary areas:

- Ensure the maintenance of current long-term arrangements through the timely renewal of expiring long-term contracts and timely renewals of long-term contract options
- Increase the support of customer demands through long-term contract arrangements
- Increase the percent of DLA's obligation dollars against long-term contracting awards
- Achieve an inventory savings goal of \$340 million by Fiscal Year 2011 as a result of the SMS items being placed on long-term arrangements

This report ends with an outline of lessons learned from FY 2008, best practices employed in DLA's Supplier Relationship Management Program, and DLA's future steps in improving its strategic sourcing efforts.

**REPORT STRUCTURE:**

**OVERVIEW OF DLA'S SUPPLIER RELATIONSHIP MANAGEMENT PROGRAM**

**The Strategic Material Sourcing Program**  
**Strategic Supplier Alliances and Supply Chain Alliances**  
**Supplier Collaboration**  
**Performance Based Logistics**  
**Tailored Vendor Relationships**

**STATUS OF FISCAL YEAR 2008 STRATEGIC SOURCING INITIATIVES**

**Strategic Material Sourcing Program Outcomes**  
**Strategic Supplier Alliance and Supply Chain Alliance Outcomes**  
**Performance Based Logistics Outcomes**

**FISCAL YEAR 2009 STRATEGIC SOURCING INITIATIVES**

**Strategic Material Sourcing Program Goals**  
**Strategic Supplier Alliance and Supply Chain Alliance Goals**  
**Performance Based Logistics Goals**

**LESSONS LEARNED AND BEST PRACTICES**

**Annual Spend Analysis**  
**Infrastructure Which Has Enabled DLA Strategic Sourcing Success**  
**SMSG Business Rules**  
**Other Lessons Learned and Best Practices**

**FUTURE STEPS: RECOMMENDATIONS FOR FUTURE INITIATIVES BASED ON LESSONS LEARNED AND BEST PRACTICES**

**SUMMARY AND NEW FOCUS AREAS**

**Outcomes of FY 2008 SRM Programs**  
**DLA's New Role under Base Realignment and Closure (BRAC) 2005 Linking Demand and Supply for Internal Support: Strategic Sourcing for Services**  
**The Defense National Stockpile Center's Strategic Sourcing for Titanium**

**APPENDIXES**

**OVERVIEW OF DLA’S SUPPLIER RELATIONSHIP MANAGEMENT PROGRAM**



DLA’s Supplier Relationship Management (SRM) program focuses on moving DLA from a manager of supplies to a manager of suppliers. This is accomplished by developing strategic relationships with key suppliers, focusing on the items of strategic importance to the Agency and its customers, and developing enhanced tailored logistics support arrangements for key customers and weapon systems. These collaborative relationships are the critical element in jointly solving problems and establishing a seamless partnership in the overall supply chain linkage of our suppliers with our customers.

DLA’s Transformation Roadmap and its Strategic Plan outline the Agency’s goals through FY 2013. The SRM program supports Transformation Goal 1: “Provide responsive, integrated best value supplies and services consistently to our customers”, Goal 2: “Develop and institutionalize the internal processes required to deliver value-added logistics solutions to the warfighter”, and Goal 4: “Manage DLA resources for best customer value”. It supports the Strategic Plan Goal 2: “ Internal Process: Continuously improve DLA performance through the development of better processes and business arrangements that reduce cost, increase logistics capabilities, and link customer demands with our Supply Chains”.

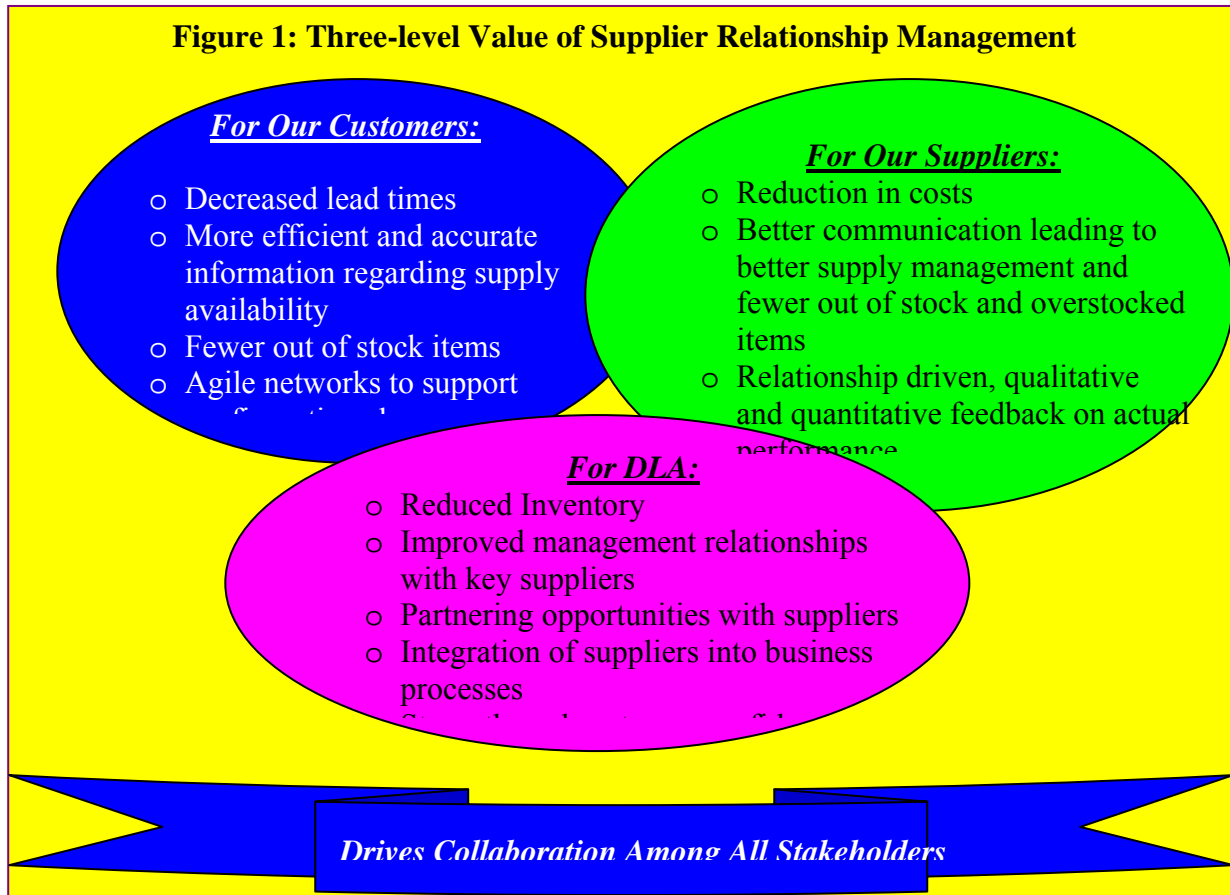
DLA uses four major types of Supply Chain Management strategies to accomplish the goals of the SRM program: Strategic Supplier Alliances (SSAs), Supply Chain Alliances (SCAs), Performance Based Logistics (PBL) initiatives, and Tailored Vendor Relationships (TVRs). The Strategic Material Sourcing (SMS) program determines the prioritization of hardware items to be placed on strategic sourcing initiatives that result from SSA and SCA partnerships, and on PBL long-term contracts. DLA’s TVR initiatives provide a broad range of specialized support for Troop Support customers in the Medical, Subsistence, and Clothing and Textile Supply Chains.

SSAs are strategic relationships formed between DLA and its largest Original Equipment Manufacturers (OEMs) (i.e. non-competitive suppliers), requiring a high level of direct communication and day-to-day relationship management and maintenance for sole source items.

DLA's SSA partners are considered "first-tier" suppliers. Each SSA relationship is codified by a Charter signed by the DLA Director. A DLA Strategic Relationship Manager (SRM) is responsible for executing the terms of the Charter and operationally expanding the relationship through the expansion of the supplier's divisions (i.e. CAGEs) under the alliance and growing the number of items included under each SSA's long-term contracting arrangements. SCAs are long-term partnering agreements with "second-tier" suppliers. They are similar to SSAs except these suppliers might not be OEMs or as large as typical SSA partners. Some are providers of competitive items. Each SCA is also codified by a Charter that is either signed by the DLA Director or the Director of Supply Operations of the primary DLA Supply Chain. A SRM is also assigned to manage each SCA. The overarching goals of SSAs and SCAs are to improve communication and to establish long term contracting arrangements for the items provided by these suppliers in order to improve support for customer requirements.

Performance Based Logistics (PBL) initiatives are acquisitions of material and/or logistics support (such as inventory management, storage, materiel handling, and transportation) from commercial and/or organic sources to improve readiness and affordability of a weapon system, subsystem or component. Supplier performance is evaluated based on measurable outcomes to ensure improved material availability, improved material reliability, reduced system mean down time, and reduced ownership costs. DLA supports this approach by awarding PBL contracts, adding DLA managed items to Service awarded PBL contracts, and being a supplier of parts and/or services to Product Support Integrators who have been awarded weapon system contracts by the Services.

**Figure 1** outlines the benefits of DLA's SRM program to DLA's customers, suppliers, and to the Agency. Our customers benefit from decreased lead times (reducing weapon system down time), more efficient and accurate information (increasing system availability), fewer out of stock items (increasing system availability), agile supply chain networks to react to configuration changes (improving parts reliability), and stable or reduced costs (reducing system total ownership costs). Our suppliers receive such benefits as reduced costs, better communication to meet requirements, and performance based relationships that allow them to improve their operational execution. DLA is able to reduce the need to hold stockpiles of inventory, integrate best business practices into its processes linking supply to demand, and thus strengthen its relationship with customers. All of these benefits result in DLA, its customers and suppliers being able to operate in a collaborative environment.



DLA manages items by distinct Supply Chains. These Supply Chains are arranged by items and commodities assigned to distinct categories of support. Each Supply Chain is assigned to a DLA Inventory Control Point (ICP) for oversight. The following lists each DLA ICP and their assigned Supply Chain. Those highlighted are the Hardware Supply Chains, i.e. manage Class IX Hardware items (repair parts less medical-peculiar repair parts). The other Supply Chains are collectively referred to as the Troop Support Supply Chains. Each Supply Chain has the lead for developing SSAs, SCAs, PBLs and TVR contracts with the vendors who provide the majority of parts used by/coded to their respective Supply Chain customers and supported weapon systems.

<u>Supply Chain Owner</u>	<u>Supply Chain</u>
<b><i>Defense Supply Center Richmond (DSCR):</i></b>	<b><i>Aviation</i></b>
<b><i>Defense Supply Center Columbus (DSCC):</i></b>	<b><i>Land</i></b>
<b><i>Defense Supply Center Columbus (DSCC):</i></b>	<b><i>Maritime</i></b>
<b><i>Defense Supply Center Philadelphia (DSCP):</i></b>	<b><i>Construction and Equipment*</i></b>
Defense Supply Center Philadelphia (DSCP):	Clothing and Textile*
Defense Supply Center Philadelphia (DSCP):	Medical
Defense Supply Center Philadelphia (DSCP):	Subsistence
Defense Energy Support Center (DESC):	Energy (fuels)

\*Note: Construction and Equipment is referred to as C&E and Clothing and Textile is referred to as C&T throughout this report.



The SRM program is executed by the Strategic Sourcing Material Groups (SMSGs) within each Supply Chain. SMSGs are multi-functional organizational units that focus on establishing and executing strategic sourcing initiatives. They include Sourcing Strategy Specialists who complete requirements analysis and recommend sourcing strategies, and Acquisition Specialists who execute those strategies. Strategies are coordinated to include items managed by the other Supply Chains and the Military Services, and executed to meet goals to optimize customer support. The SMGS also integrate the requirements for new depot level reparable into their analyses as part of DLA's new role under Base Realignment and Closure 2005. The SMSGs also include Supplier Relationship Managers (SRMs) who are the managers of SSAs and SCAs.

### **The Strategic Material Sourcing Program**

Strategic Material Sourcing (SMS) is DLA's approach and methodology of developing material sourcing strategies and priorities for target item groups to assist the Agency in completing the transition of moving from a manager of supplies to a manager of suppliers. The SMS program supports DLA's Class IX Hardware items or National Stock Numbers (NSNs). It prioritizes the choice of NSNs that are considered for long-term arrangements under SSAs, SCAs, PBLs, tailored support arrangements, and traditional long-term arrangements. The SMSGs have the primary responsibility of developing strategies and executing strategic initiatives in each Supply Chain to meet that Supply Chain's annual SMS goals.

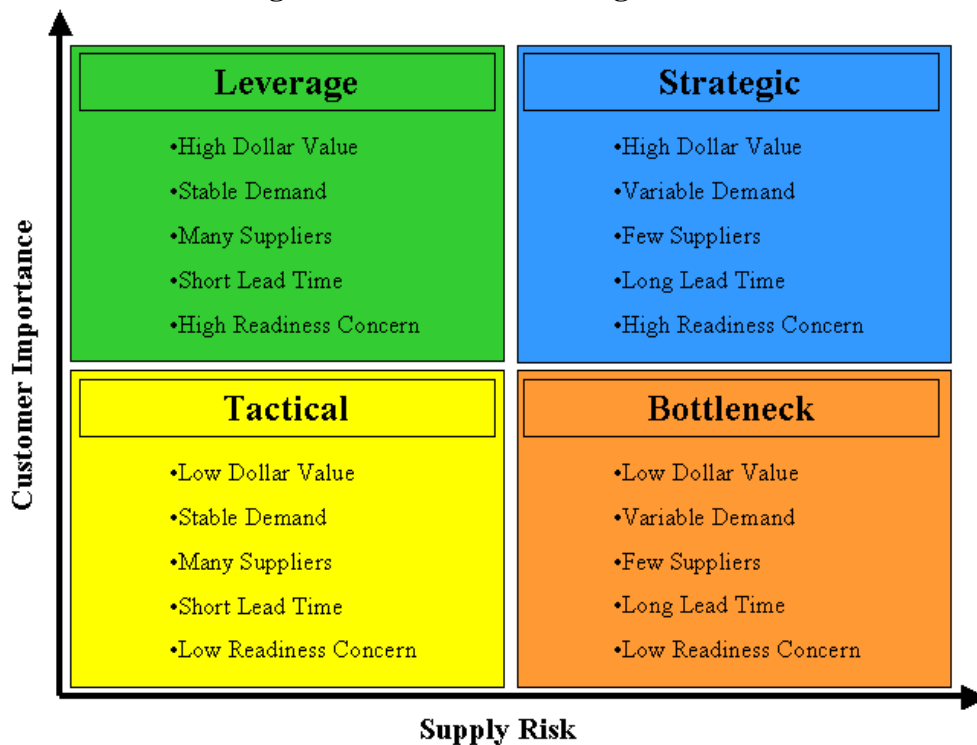
The overall objective of the SMS process is to correctly match supplier capabilities with customer requirements, and support those requirements via strategic sourcing arrangements (i.e. long-term contracts (LTCs)) with suppliers. The intangible benefits derived from LTCs include the utilization of best commercial practices in supporting complex and routine customer requirements, a streamlined communication network with vendors, and an agile supply chain management process. The tangible benefits include reduced administrative and production lead-times (ALT and PLT), inventory savings, increased availability, a reduced logistics footprint, and quicker customer response times. All of these are achieved as a result of leveraging industry's processes, systems, procedures, experience and knowledge via long-term contracting agreements and strategic partnerships.

There are four steps leading to sourcing strategy development and implementation for the SMS program:

1. Strategic Leveraging Analysis (SLA): Just as in a commercial setting, this step entails a Spend Analysis to determine what goods and services are being purchased by customers. The significant sales and spending streams are then used to define products and procurement leveraging opportunities in the second step. A "significant demand stream" is defined by Pareto analysis on those NSNs whereby 75% to 85% of the sales volume for the past two to three years predicts the NSNs most critical to the Supply Chains' business bases.

- Segmentation Analysis:** Step two involves evaluating how difficult it is to procure an item and its business value to the organization. At one extreme, Acquisition Specialists have only a single source of supply for an item and cannot put it out for a competitive bid. At the other end of the spectrum, the desired item is readily available through commercial channels and a multitude of suppliers. Naturally, many of DLA’s items are found somewhere between these two extremes since DLA supports all Military Services, many Executive Branch Agencies, and Foreign Military Sales (FMS) countries. By combining spend and sales analyses with this procurement difficulty evaluation, items may be grouped into the four quadrants of the Materiel Sourcing Matrix based on their relative importance to the customer and degree of supply risk, allowing the procurement professional to better understand the pertinent sourcing issues and available options. The objective of this process is to group like items together, allowing appropriate sourcing strategies to be readily developed and applied to provide higher levels of support without excessive drains on the procurement function. See **Figure 2** below to view the Materiel Sourcing Matrix, and the characteristics of items for each quadrant.

**Figure 2 - Materiel Sourcing Matrix**



- Infrastructure Assessment:** In the third step, the purchasing effectiveness of DLA’s procurement organization is determined and benchmarked. For example, an organization should know how many dollars of materiel it purchases for every dollar it spends in the purchasing effort. This purchasing effectiveness is directly impacted by the organization’s structure, employees’ skill sets, information infrastructure, and the utilization of purchasing best practices. One of DLA’s primary goals is to leverage its

buying power to support warfighter needs at the lowest possible cost. Strategic sourcing helps DLA make the most efficient use of its existing infrastructure. This allows more procurement professionals to be freed from routine purchasing and allows them to focus on new requirements and new items to proactively resolve problem items that could result in support delays. These improvements occur for procurement actions made by each DLA Supply Chain. While multiple buying organizations have diluted potential leveraged buys by executing multiple contracts with many DoD suppliers, SMS is designed to capture leveraged buying opportunities and produce overall better support at a lower total ownership cost.

4. **Sourcing Strategy:** The most appropriate sourcing strategy will depend on the information and discoveries made in steps 1-3. By using the Materiel Sourcing Matrix, DLA recognizes which quadrants contain more or less of the Enterprise's negotiating strength. The theoretical objective of this process is to lower total cost of ownership and to minimize sourcing risk to the organization. The key is to realize that the sourcing strategies differ for items in each of the four quadrants. DLA focuses on leveraging its buying strengths and building long-term relationships with suppliers through formal alliances. Through carefully developed and implemented sourcing strategies, DLA has realized a significant improvement in its purchasing effectiveness.

Together, the four steps in DLA's SMS process offer a powerful method designed to allow the procurement workforce to improve parts availability. With fewer labor hours consumed on repetitive buys for high demand weapon system parts, more labor hours are available for addressing support problems to entire systems or low demand/new demand items that often impede warfighter capabilities. While these problem items will certainly remain a harsh reality in the current "aging platform" environment, the warfighter, as well as the taxpayer, will welcome higher support levels that are achieved without a corresponding increase in procurement cost. At the same time, improved contract leveraging diminishes or offsets higher materiel costs needed to put more parts in warfighter hands, wherever and whenever needed.

**Appendix A** lists and defines the categories (i.e. primary drivers) that are used to develop the SMS population of items. Data for items in these categories is refreshed each fiscal year. Because the annual analysis focuses on customer requirements and contract awards over a two to three year period, there is significant overlap in the items chosen from one fiscal year to the next.

**Table 1** shows the number of NSNs in the FY 2008 and FY 2009 SMS populations by the mutually exclusive prioritized drivers under which the items were added. These NSNs represent approximately 20% of the hardware items managed by DLA. In other words, these are the 20% of items managed that drive 80-85% of DLA's business and its customers' readiness requirements.

**Table 1: Strategic Material Sourcing National Stock Number (NSN) Count by Primary Driver, Fiscal Years 2008 and 2009**

Primary Driver	FY 2008 NSN Count	FY 2009 NSN Count
Sales	44,824	68,284
Demand	88,678	133,838
Non Mission Capable Supply (NMCS)	8,671	11,227
Warstopper	36,702	19,281
Readiness	22,798	39,032
Critical	4,353	3,389
Supply Chain Focus	45,843	7,590
Add-Backs	83,846	0
Total	335,715	282,641

**Strategic Supplier Alliances and Supply Chain Alliances**

DLA’s SSAs and SCAs were established by analyzing DLA spend data and engaging the suppliers receiving the greatest amounts of obligation dollars over a three year period. Once each alliance was officially established via a signed Charter, the next steps were to add the Military Services as partners and then bring CAGEs (i.e. divisions) of each supplier under the alliance. The later step was prioritized by analyzing the CAGEs for each supplier that received the greatest amount of obligations and also provided the largest number of items. The Services used a similar methodology to determine which DLA alliances they would partner on. On some alliances, the Defense Contract Management Agency (DCMA) is also a partner.

A signed Charter outlines the overall terms of the relationship and is ratified by senior level officials of all parties in the relationship (i.e. DLA, the supplier, DCMA, and the Military Services). Some of these terms are expressed as strategic qualitative goals: for example, cost management, sharing of resources, streamlining acquisition processes, improving communication among stakeholders, and improving business processes. The long-term contracts awarded under the alliances contain clauses and terms and conditions that outline the specific performance metrics to be achieved in support of the qualitative goals (for example, achieving 99% on-time delivery for all orders, shipping all high priority (Issue Priority Group One) requisitions with 24 hours, and reducing production lead-times by 25%).

DLA uses the following metrics to track DLA and vendor performance on LTCs under SSAs and SCAs (as graphically depicted in **Appendix B**). Quantitative performance is determined by comparing current performance to an established baseline point. Based upon the increase or decrease in performance from the baseline, each metric is color coded using a “stop light” methodology: Red if performance is unacceptable, Yellow if performance is causing concern, Green if acceptable, and World-Class if performance is meeting government and industry standards of excellence:

**Annual Obligations:** Measures the percent of LTC obligation dollars over total obligations to a supplier.

- Measurement (includes both competitive and sole source items)
  - Red: < 5% increase
  - Yellow:  $\geq 5\%$  but < 10% increase
  - Green:  $\geq 10\%$  points increase
  - World-Class: 90% of annual awards on LTC regardless of change from base period

**Administrative Lead-Time (ALT):** Measures the total time between the generation date of a purchase request to the award date of a contract. ALT is the one metric that most fully identifies the procurement organization's impact on business performance. Changes in ALT impact customer wait time, attainment to plan, and availability.

- Measurement
  - Red: <3% reduction from FY 2005 baseline ALT
  - Yellow: <5% but  $\geq 3\%$  reduction from FY 2005 baseline ALT
  - Green:  $\geq 5\%$  reduction from FY 2005 baseline ALT
  - World-Class: 10 days

**Production Lead-Time (PLT):** Measures the total time between the contract award date to the receipt of product. Changes in PLT impact customer wait time, attainment to plan, and availability.

- Measurement
  - Red: <3% reduction from FY 2005 baseline PLT
  - Yellow: <5% but  $\geq 3\%$  reduction from FY 2005 baseline PLT
  - Green:  $\geq 5\%$  reduction from FY 2005 baseline PLT
  - World-Class: Aviation and Maritime Supply Chains= 75 days, Land = 60 days

**Quality:** Represents a defect rate that is derived based on the number of quality complaints that are recorded against a supplier's items compared with the volume of customer orders for those items shipped during the reporting period. The higher the customer orders (and resulting item shipments) are, the more likely a customer quality complaint or Product Quality Deficiency Report (PQDR) is to be generated.

- Measurement
  - Red:  $\geq .5\%$  PQDRs Defect Rate
  - Yellow: >.2 but <.5% PQDRs Defect Rate
  - Green:  $\leq .2\%$  PQDRs Defect Rate
  - World-Class: 0% Defect Rate regardless of change from base period

**Unfilled Orders:** Measures the number of unfilled requisition lines against all of a supplier's sole source NSNs or other NSNs on long term contracts with that supplier.

- Measurement
  - Red: <10% reduction from FY 2005 baseline
  - Yellow: <20 but  $\geq 10\%$  reduction from FY 2005 baseline
  - Green:  $\geq 20\%$  reduction from FY 2005 baseline

- World-Class: <5% of total customer order lines are established as a backorder (past allowed normal processing times) occurring in the report period regardless of change from base period

**Price Control:** Measured based on the percentage change of last SSA contract unit price paid compared to the benchmark contract unit price

- Measurement
  - Red: > 8% escalation from FY 2005 baseline
  - Yellow: 5%-8% escalation from FY 2005 baseline
  - Green: <5% escalation from FY 2005 baseline
  - World-Class: Reduced price

**On Time Delivery:** The percent of contract lines fully shipped within a specified time frame.

- Measurement
  - Red: < 80% on time
  - Yellow: 80-89% on time
  - Green:  $\geq$  90% on time
  - World-Class: 98% on time regardless of change from base period

Currently, DLA is refining these metrics and the automated reporting of vendor metrics within its Enterprise Business System. DLA is also working on a Joint Supplier Scorecard (JSSC) with the Military Services in order to develop common metrics and methodologies across DoD. The Army, Navy, Air Force, DCMA and DLA jointly determined the metrics to be utilized in the JSSC. The JSSC will provide a common set of metrics, definitions and calculations that addresses Industry's concern of disparities in evaluations.

### **Supplier Collaboration**

In order to improve the link between supply and demand, DLA has developed an automated supplier collaboration tool that allows suppliers to view forecasted demand data. This proactive process assists suppliers in anticipating their production needs, improving relationships with their own suppliers, and being able to quickly react to changing government requirements. The Supplier Requirements Visibility Application provides 24 months of sole source and competitive projected purchase order quantities and is updated monthly. This tool enhances the collaboration that already occurs with our strategic alliance partners by automating the data exchange process.

### **Performance Based Logistics**

DLA engages in PBL initiatives in one of the following ways:

1. Fully partners with the awarding Military Service activity and incorporates DLA managed items on a Service awarded PBL contract along with the items managed by that Service. The contract contains specific performance criteria for all items on the contract.

2. DLA partners with the Product Support Integrator who has been awarded a PBL contract by the Services. The contractor uses DLA as a primary or secondary source of supply for all DLA managed items.
3. DLA awards PBL contract.

DLA's PBL and PBL-like contracts are chosen based on those critical weapon systems requiring enhanced support. The F404 is the first system DLA is supporting via a DLA awarded PBL contract. Others are planned in the coming years (as outlined in the goals sections).

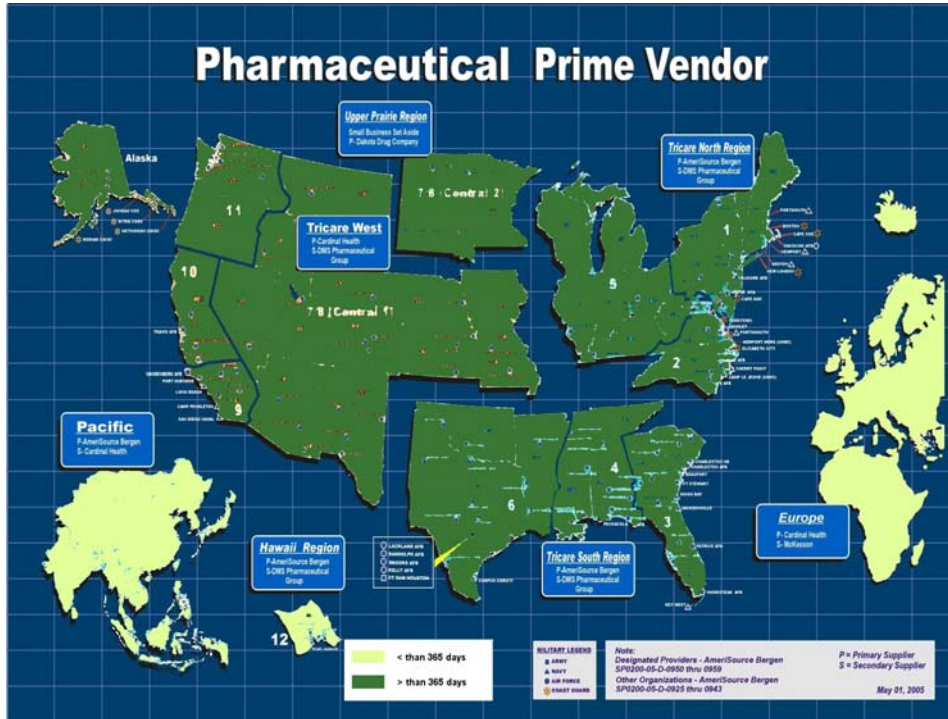
### Tailored Vendor Relationships

Although this report focuses on the SMS program, and SSAs and SCAs, this section provides an overview of DLA's Tailored Vendor Relationships. A prime vendor is a supplier of a wide variety of products within a specific industry/sector, which along with supplying those products provides additional capabilities such as distribution. The additional capabilities are evaluated as part of the best value decision making process. The Troop Support Supply Chains lead the Agency in TVR initiatives given the commerciality of the items they manage and the unique needs of their customers. The following are the features of DLA's Pharmaceutical Prime Vendor initiatives:

- Customers
  - DoD Medical Treatment Facilities (MTFs) worldwide
  - Certain Non-DoD MTFs
  - Navy Ships (Fleet PV contract – also includes USNS Comfort and Mercy)
  - Deployed and deployable combat units
- Unique Features
  - Negative distribution fees
  - Surge and War Readiness Materiel Support requirements
  - Primary and secondary contracts
- Pricing
  - Federal Supply Schedules/Distribution and Pricing Agreements
  - National Contracts
  - Uniform Formulary BPAs

The Medical Supply Chain awarded its Pharmaceutical Prime Vendor Generation III contract in January 2005. It supports all CONUS facilities plus Alaska and Hawaii (separate contracts are in place for Europe and Pacific). This 10-year, \$20.8 billion initiative has distribution fees as low as 5.33%. Its benefits include fill rates of 97-98% for routine day-to-day orders and 100% for readiness orders, next day delivery, and 100% price adjudication. **Figure 3** outlines the regions supported. **Figure 4** displays the regions supported by the Medical Prime Vendor contracts.

**Figure 3: DLA’s Medical Supply Chain Pharmaceutical Prime Vendor Support by U.S. Region**



**Figure 4: DLA’s Medical/Surgical Prime Vendor Support by Region**





**STATUS OF FISCAL YEAR 2008 STRATEGIC SOURCING INITIATIVES**

**Strategic Material Sourcing Program Outcomes**

The FY 2008 SMS population consisted of 335,715 NSNs. The distribution of item management by Supply Chain across the Agency was as follows:

Aviation	49.1%
Maritime	32.1%
Land	12.8%
C&E	6.0%

These items represented approximately 8% of DLA’s Hardware items, but 88% of Hardware procurement actions and 87% of Hardware sales. These items supported 10.5 million customer requisitions in FY 2008 valued at \$5.35 billion (calculated based on materiel cost). **Table 2** shows the top weapon systems that were supported by the FY 2008 NSN SMS population and **Table 3** shows the top customers supported. These systems and customers directly benefited from the performance outcomes discussed above. Notice that Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF) are heavily supported by DLA.

F-15	H-60	S-3
F/A-18	ARLEIGH BURKE CLASS CG	EA-6B
C-130	FORRESTAL CLASS CV	WHIDBEY ISLAND CLASS LSD
F-16	C-5	SUPPLY CLASS AOE
NIMITZ CLASS CVN	SH-60B	P-3
KC-135	TARAWA CLASS CV	AV-8B
WASP CLASS LHD	CH-53	E-3A
TICONDEROGA CLASS CG	OLIVER PERRY CLASS FFG	E-2C

**Table 3: Top Customers Supported by the FY 2008 SMS Population**

DODAAC	NAME
FB2039	HILL AFB, UTAH
FB2029	TINKER AFB, OK
W91EB8	OPERATION ENDURING FREEDOM
R55660	MARINE AVIATION LOGISTIC SQ DET FWD
SD0511	LOCKHEED MARTIN DISTRIBUTION CENTER, CLEARFIELD UT
FB2065	ROBINS AFB GA
W91X8J	SR 0240 CS CO FORWARD
W81R9H	SR W0DA AFSBN QATAR
SD0512	LOCKHEED MARTIN DISTRIBUTION CENTER, Warner Robins GA
W91WBY	OPERATION IRAQI FREEDOM

The following are the goals and outcomes achieved in FY 2008.

**FY 2008 Goal:** Long-Term Obligation Contract Rate (for Hardware items only) – 63.6%

**Definition:** LTC obligations as a percent of total obligations for Hardware items only (items in Troop Support Supply Chains are mostly covered by LTCs at a LTC coverage rate of 85-95%)

**Outcome:** DLA ended the year with a rate of 59.2%. Although this rate was below the established goal, it is the highest rate in DLA’s history. LTC obligations amounted to \$5.149 billion.

**FY 2008 Goal:** Increase in number of SMS Hardware NSNs on LTCs - 4,705

**Definition:** Increase in the number of items on long-term contracts on 30 September 2008 compared to 1 October 2007

**Outcome:** DLA ended the year with a net increase of 6,514 NSNs on LTC, for a total of 120,683 SMS NSNs on LTC

**FY 2008 Goal:** Complete planned renewal actions on at least 5,863 NSNs

**Definition:** Place NSNs on expiring LTCs on new LTCs and exercise the contract options on existing LTCs as required

**Outcome:** The Supply Chains completed renewals on 7,524 NSNs

**FY 2008 Goal:** Contribution of an additional \$48 million in inventory savings from SMS, SSA and SCA items on LTCs toward the cumulative Inventory Savings Goal of \$340 million by the end of FY 2011

**Definition:** Cumulative inventory savings from 1999 through the end of FY 2011 based on items being placed on long-term contracts.

**Outcome:** \$67.8 million in inventory savings as of FY 2008 3<sup>rd</sup> quarter, resulting in cumulative savings of \$266.0 million as of FY 2008 Quarter 3 (78.2% of end goal)

The benefits of DLA’s FY 2008 SMS performance can be clearly seen when comparing additional metrics for the FY 2008 SMS item population to those of all other DLA managed Hardware items.

- The average administrative lead-time (ALT) for SMS items on LTCs is 1.6 days compared to 51.2 days for all other Hardware items.
- The average production lead-time (PLT) for SMS items on LTCs is 29.4 days compared to 78.6 days for all other Hardware items.
- The percent of backorders for SMS items on LTC that are over 180 days old is 17.9% compared to 25.8% for all other Hardware items.
- The material availability for SMS items on LTC is 90.69% compared to 80.93% for all other Hardware items.

As shown in **Table 4**, DLA continues to ensure small business and AbilityOne suppliers obtain significant obligations from long-term contracting arrangements. For example, Women-Owned Business received over \$474 million in SMS LTC obligations in FY 2008 from contract awards for SMS NSNs. AbilityOne agencies received over \$73 million in SMS LTC obligations. (Note that these figures are not mutually exclusive. For example, a single supplier may be coded to two CCR Small Business Codes so that obligations are count in both codes).

**Table 4: Fiscal Year 2008 SMS Obligations to Small Businesses and AbilityOne Suppliers**

CCR Small Business Code	Business Type	FY08 SMS Obligations
A2	Women-Owned Business	\$ 474,296,318.67
XX	SBA Certified Hub Zone Firm	\$ 155,256,920.43
27	Self-Certified Small Disadvantaged Business	\$ 109,440,663.00
A4	SBA Certified Small Disadvantaged Business	\$ 72,411,508.26
A6	SBA Certified 8(a) Program Participant	\$ 54,638,836.97
A7	AbilityOne (formerly JWOD) Nonprofit Agency	\$ 73,357,125.01

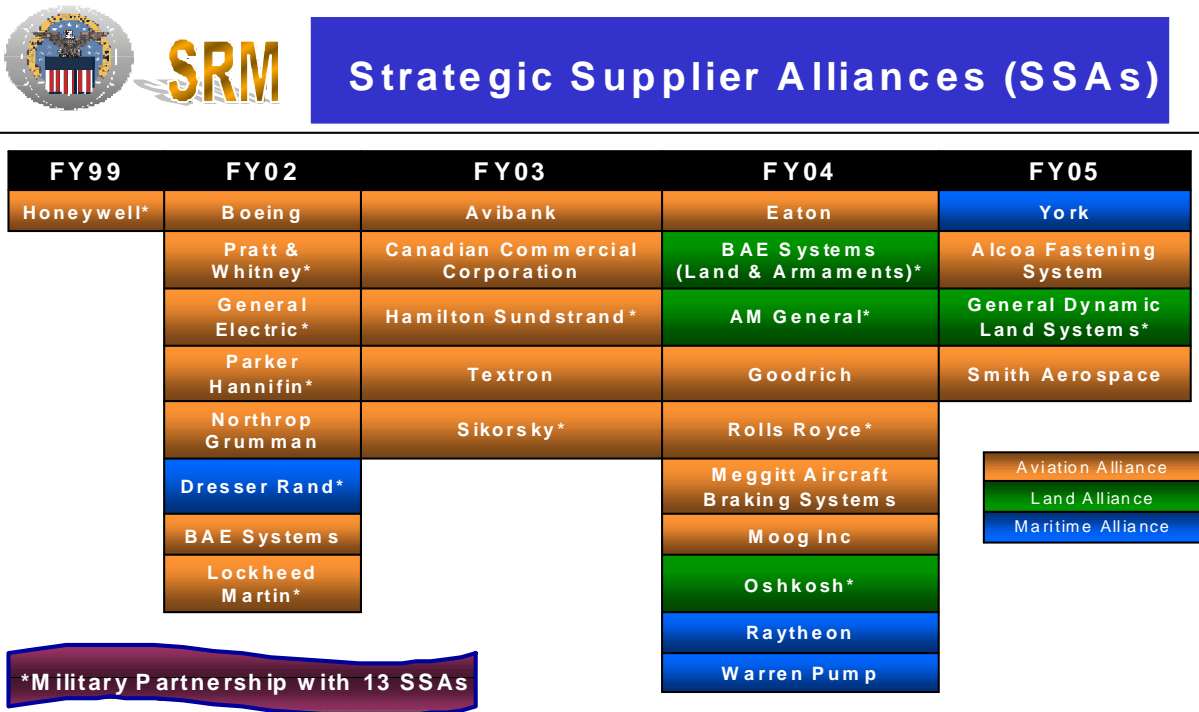
**Strategic Supplier Alliance and Supply Chain Alliance Outcomes**

By the end of FY 2008, DLA had established 28 SSAs and exceeded its goal of establishing 24 by FY 2006. **Chart 1** shows the list of SSAs established. The majority of these are with the Aviation Supply Chain because it leads the Agency in sales, demands and obligations. As shown, 13 of these SSAs include one or more of the Military Services as partners. For example, the Air Force joined the Rolls Royce SSA as a partner during FY 2008. DLA and vendor performance metrics for SSAs and SCAs are reported and analyzed monthly. These metrics are shared with

suppliers to ensure all parties in the alliances are aware of performance deficiencies, and it allows for performance achievements to be benchmarked.

The Supply Chains and DLA HQ spent FY 2008 enhancing their supplier partnerships through such methods as having supplier conferences and Industry Days. For example, DLA held its second annual DLA Strategic Partner’s Conference on March 20, 2008. This year’s theme was “Vendor Relationships: Linking Supply and Demand”, which served to reinforce DLA’s role with industry to improve support to warfighters. It was co-hosted by the DLA Director and the DLA Director of Acquisition Management. The conference allowed the alliance partners to hear DLA’s vision for strategic partnering from the DLA and OSD Senior Leaders. Mr. Shay Assad (Director Procurement, Acquisition Policy and Strategic Sourcing) served as the conference keynote speaker and discussed the challenges faced by the DoD Acquisition Community in complying with the Truth in Negotiations Act. Dr. Steven Kelman (Weatherhead Professor of Public Management at Harvard University’s John F. Kennedy School of Government) spoke on strategic sourcing from the perspective of academia.

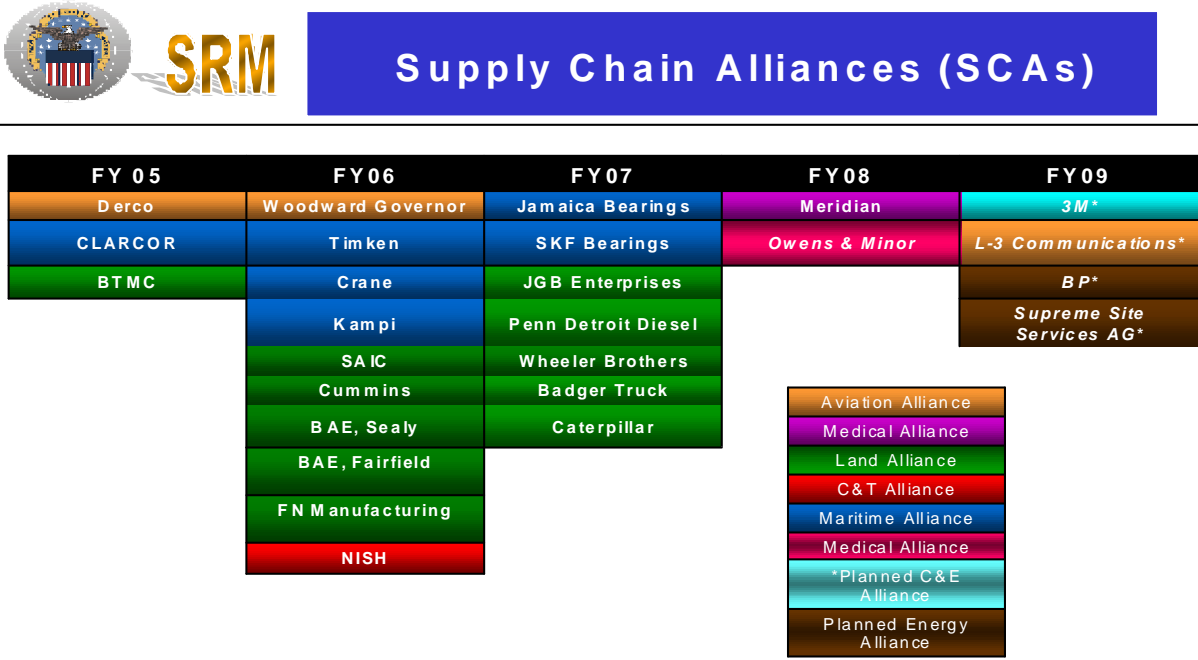
**Chart 1: DLA Strategic Supplier Alliances**



DLA established a goal of having 12 SCAs in place by the end of FY 2007. As shown in **Chart 2**, this goal was surpassed with 22 SCAs being completed. The SCAs for 3M, L-3 Communications, BP, and Supreme Site Services AG are under development and planned for completion in FY 2009. As seen, SCAs have been expanded to included primary suppliers in the Medical, C&T and Energy Supply Chains. Prior to FY 2008, the SCAs in place were only in the

Hardware Supply Chains. This change has expanded alliances to across the Enterprise in order to expand the gains achieved from strategic alliances to all DLA customers.

**Chart 2: DLA Supply Chain Alliances**



By the end of FY 2008, 64,489 DLA managed NSNs were on SSA LTCs and 30,526 were on SCA LTCs. SMS items accounted for 95% of all SSA and SCA obligation dollars. These items contributed to the following performance metrics for these alliances. Metrics are measured against a baseline of performance in 2005:

The average ALT for all items on these alliances decreased by 3.6% from 2005.

The average price of items on LTCs under these alliances only increased by 6.6% since 2005 (very good considering the average allowable inflationary rate is 3% per year).

Minimum quality issues. For example, only 1.8% of orders shipped in September 2008 had a possible quality issue (i.e. defect, quantity issue, packaging, etc.)

**Performance Based Logistics Outcomes**

DLA implemented or established partnerships on 5 PBLs in FY 2008, as shown in **Appendix C**. In FY 2008, DLA added NSNs to the Air Force’s PBL to support secondary power systems. DLA is a source of supply to the Product Support Integrators under contract with the Services for the other 4 efforts. The chart also shows PBL arrangements and partnerships that were established in prior years.

Each of these PBL arrangements will provide enhanced support for the systems identified in **Appendix C**. In addition to these systems, enhanced support will be obtained by any customer using the items on these arrangements since the majority of DLA managed items are common to more than one system. All of these stakeholders will benefit from DLA’s support. This differs from the Services, who award PBLs that only benefit select customers using the specific system under contract.

**FISCAL YEAR 2009 STRATEGIC SOURCING INITIATIVES**

**Strategic Material Sourcing Program Goals**

The FY 2009 SMS population consists of 282,641 NSNs. These items supported 10.8 million customer requisitions in FY 2008 valued at \$7.5 billion (calculated based on materiel cost). The items are distributed across the Supply Chains as follows:

Aviation	46.6%
Maritime	38.5%
Land	10.0%
C&E	4.9%

**Table 5** shows the top weapon systems supported by the FY 2009 population. Most of these are the same systems that were supported by the FY 2008 population.

F-15	H-60	S-3
F/A-18	ARLEIGH BURKE CLASS CG	EA-6B
C-130	FORRESTAL CLASS CV	WHIDBEY ISLAND CLASS LSD
F-16	C-5	SUPPLY CLASS AOE
NIMITZ CLASS CVN	SH-60B	P-3
KC-135	TARAWA CLASS CV	AV-8B
WASP CLASS LHD	CH-53	E-3A
TICONDEROGA CLASS CG	OLIVER PERRY CLASS FFG	E-2C

**Table 6** shows the top customers (i.e. top Military Service stakeholders) for items in the FY 2009 SMS population based upon the volume of requisitions submitted in FY 2008.

<b>Table 6: Top Customers Supported by the FY 2009 SMS Population</b>	
Tinker AFB, OK	Kuwait - Operation Iraqi Freedom
Hill AFB, UT	Fort Hood, TX
Lackland AFB	Maxwell AFB
Fort Jackson, SC	Camp Anaconda - Operation Iraqi Freedom
Fort Leonard Wood, MO	FISC Jacksonville
Warner Robins AFB	Taji Iraq – Operation Iraqi Freedom
Fort Benning, GA	Bagram Air Base – Operation Enduring Freedom
HQ HHC ASG Kuwait	Parris Island, SC

The SMS goals for FY 2009 have been refined to improve the Supply Chains’ focus on maintaining long-term contracts, increasing the coverage of customer demands via long-term contracting arrangements, and achieving the outcome of an increased LTC obligations percentage.

- The LTC Maintenance goal will measure the timely planned renewal of NSNs on expiring LTCs and the exercising of LTC options. This goal includes the SMS items managed in the Hardware Supply Chains, all of the NSNs on LTCs in the Clothing and Textile Supply Chain, and the LTCs contracts in the Medical and Subsistence Supply Chains. The FY 2009 goal is to complete renewals for:
  - 26,749 SMS NSNs in the Hardware Supply Chains (Aviation, Land, Maritime, and Construction and Equipment)
  - 9,686 NSNs in the Clothing and Textile Supply Chain
  - 355 contracts in the Medical and Subsistence Supply Chains.
  
- The SMS Growth goal measures the increase in each Hardware Supply Chain’s customer requisitions filled through LTCs and the value of those requisitions:
  - The FY 2009 goal is to achieve an increase of \$605 million customer demands being filled through LTCs. In FY 2008, \$3.589 billion in customer demands were filled through LTCs and this number serves as the FY 2009 baseline.
  - The second part of this goal is an increase of 1.4 million requisitions being filled through LTCs. In FY 2008, 4.3 million customer requisitions were filled through LTCs and this number serves as the FY 2009 baseline.
  
- The LTC Obligation Rate goal measures the percent of total obligations made against LTCs: the FY 2009 goal for DLA is 63.3%. The FY 2009 LTC Obligation Rate goal is a continuation of the Agency’s aggressive goal setting for this metric. DLA ended FY 2008 at 59.2%, FY 2007 at 57.5%, FY 2006 at 54.1%, and FY 2005 at 45.5%. The distribution of the FY 2009 LTC Obligation goal by Supply Chain is as follows:

Aviation	57.0%
Maritime	41.0%
Land	70.0%
C&E	84.0%

All of the FY 2009 goals will be achieved through increased Senior Leadership attention on performance and outcomes. The FY 2008 and 2009 goals were endorsed by the DLA Vice Director via message to the Commanders of each Supply Chain.

In FY 2009 (just as in FY 2008), SMS Goals will be tracked weekly, monthly and quarterly. The Supply Chains are required to explain performance results monthly. Each Supply Chain Commander is personally responsible for briefing the DLA Director and/or DLA Vice Director on their performance toward goals during the monthly DLA Corporate Board Enterprise Performance Review.

Under the Base Realignment and Closure (BRAC) 2005 directives, DLA will begin awarding contracts for Service managed Depot Level Repairables (DLRs) in FY 2009, and expanding existing long-term contracts to include a greater number of DLRs. The benefits gained via SMS will thus also be realized by the Services. DLA has also expanded its collaborative efforts with the Services beyond BRAC. As shown in **Appendix D**, for example, DLA has partnered with the Air Force on a variety of long-term initiatives under the Air Force's Commodity Council initiative.

### **Strategic Supplier Alliance and Supply Chain Alliance Goals**

DLA has a goal to develop and implement 20 strategic arrangements between FY 2007 and FY 2011. These arrangements may include SSAs, SCAs or PBLs. DLA is well on its way of achieving this goal with 9 SCAs established in Fiscal Years 2007 and 2008. DLA began developing strategic alliances solely with the Hardware Supply Chains when the SRM program was implemented in 1999. Since that time, strategic alliances have been established or are planned with all Supply Chains. The first SCA with a non-Hardware Supplier was signed with NISH in FY 2006 by the C&T Supply Chain. The two SCAs put in place in FY 2008 were by the Medical Supply Chain with Meridian and Owens & Minor. In FY 2009, the Energy Supply Chain is planning to establish SCAs with BP and Supreme Site Services AG. The Construction and Equipment Supply Chain is planning a SCA with 3M, and the Aviation Supply Chain is working on a SCA with L-3 Communications. Discussions are already underway with each supplier and items to be added to strategic initiatives have been identified.

### **Performance Based Logistics Goals**

DLA's goal is to have between five and fifteen additional PBL/Performance Based Agreements (PBAs) in place by FY 2011. **Appendix C** shows the projects already in place and those scheduled for FY 2009 through FY 2012. Fifteen new efforts are in process. Four of these will be PBLs awarded by DLA in support of the F-15, 363 Ton Air Conditioning Plant, Gas Turbine



Generator, and the KC-135. DLA is striving to become a supplier to PBL Integrators awarded Service PBL contracts on the remaining 11 efforts. As a supplier, DLA establishes partnering arrangements with the PBL Integrator and agrees to types and levels of logistics support.

Each PBL will provide enhanced support for the systems identified. DLA's participation is expected to increase support to warfighters through increased material availability, improved reliability, reduced costs, and enhanced obsolescence management. These strategic arrangements will include performance metrics for one or more of the following Integrated Logistics Support (ILS) elements required of PBL contracts:

- Manpower and Personnel
- Supply Support
- Support and Test Equipment
- Training and Training Support
- Packaging, Handling, Storage and Transportation
- Facilities
- Computer Resources Support
- Technical Data
- Maintenance Planning
- Design Interface

An additional metric DLA levies on PBL vendors is their small business participation rate. Since most PBLs are awarded as sole source contracts, this metric ensures small businesses still remain viable.

The following bullets outline DLA's support vision for PBLs:

- Support DoDI 5000.2 guidance for Military Service (MILSVC) to ensure Life-cycle sustainment planning be considered during Concept Refinement, matured throughout Technology Development and updated/executed during Production and Deployment and Operations and Support
- Partner with MILSVCs Product Support Integrator (PSI) as a Product Support Provider (PSP) to provide best value to warfighter by being a recognized partner
- Expand DLA capability to be the selected PSI in support of MILSVCs
- Leverage DoD capabilities across weapon systems, e.g., Long Term Contracts (LTCs), Strategic Supplier Alliances (SSAs), Supply Chain Alliances (SCAs), Procurement of New Depot Level Repairables (DLRs), dedicated truck services, cataloging

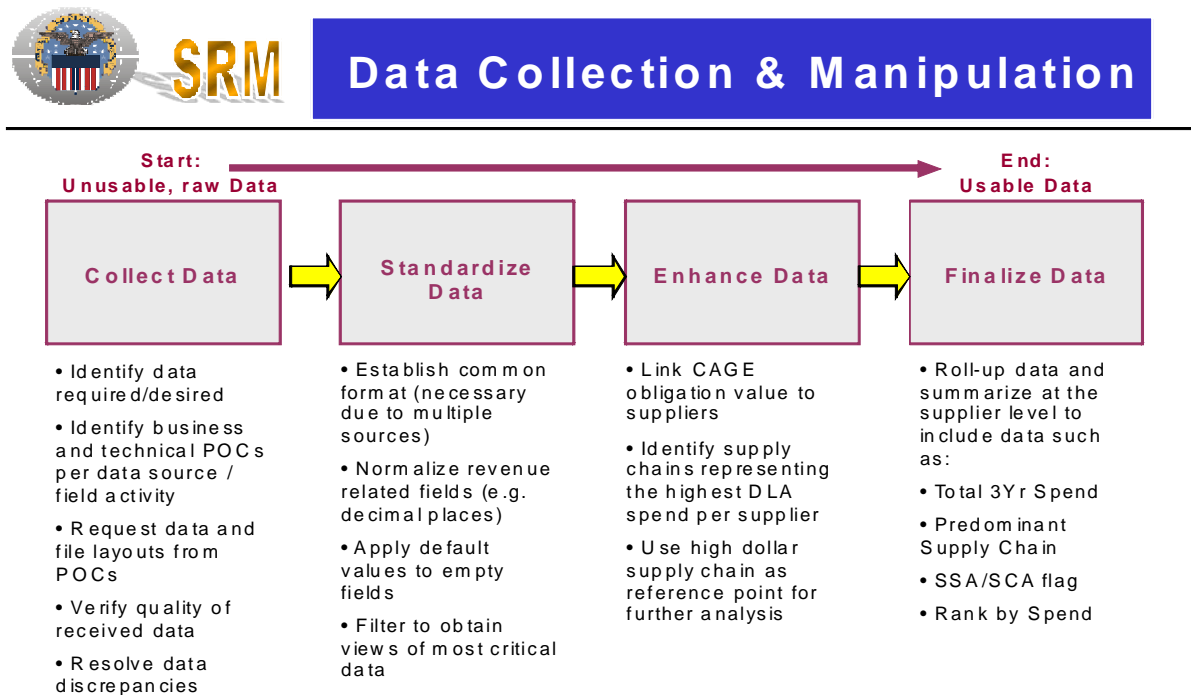
## **LESSONS LEARNED AND BEST PRACTICES**

### **Annual Spend Analysis**

Each year DLA conducts a spend analysis of obligations made over the past three years for each Supply Chain and the Agency in aggregate. This spend analysis is conducted in order to determine if there are new suppliers with significant obligations that are potential new candidates for SSAs or SCAs.

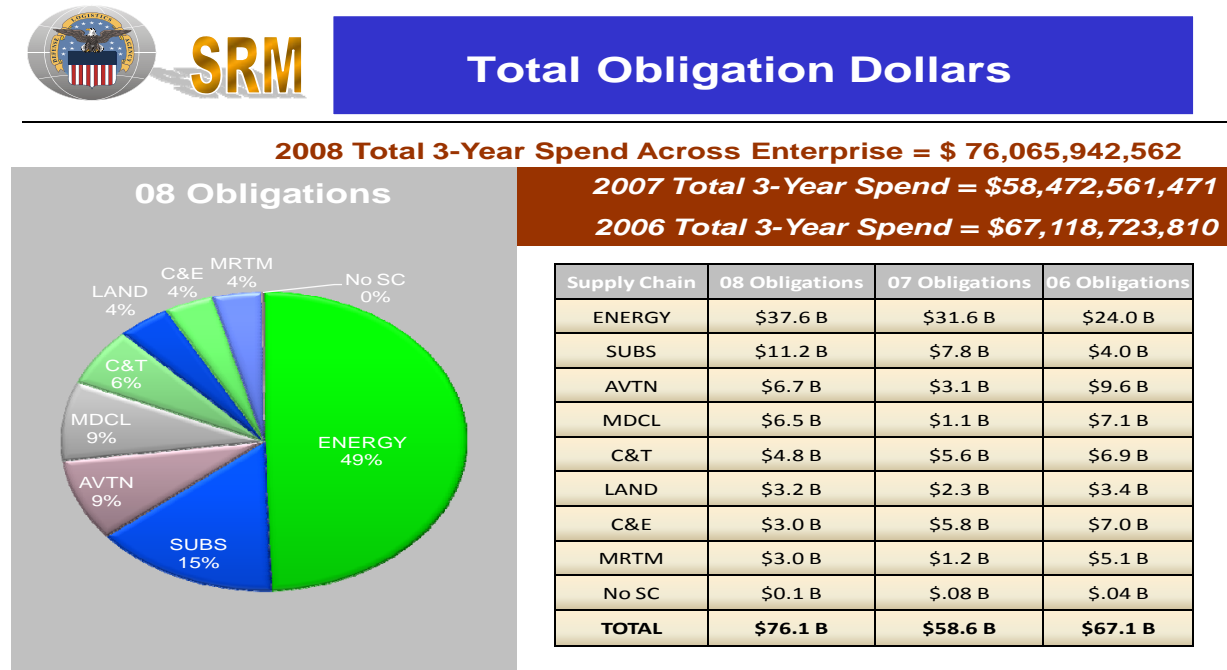
As shown in **Figure 5**, this spend analysis begins with the collection of data which includes verifying and resolving any data discrepancies. In the next step, the data is standardized since it is retrieved from multiple sources, systems and data files. The data is then enhanced by linking critical values together such as the parent CAGE to its divisions and top suppliers to their primary DLA Supply Chain partners. In the final stage the data is summarized to arrive at the top suppliers for the Agency and by Supply Chain over the 3-year period.

**Figure 5: DLA’s Process for Conducting Annual Spend Analysis**



**Figure 6** shows DLA spend by Supply Chain over the past three years. The Energy Supply Chain is the leading contributor to DLA’s total obligations. In FY 2008, Energy comprised 49% of DLA’s \$76 billion in obligations from Fiscal Years 2005 through 2008. Subsistence is the second largest Supply Chain with 15% of total obligations, followed by Aviation (the leading Hardware Supply Chain) with 9%.

**Figure 6: Total DLA Obligations in Fiscal Years 2005 – 2008 (FY 2008 3<sup>rd</sup> Quarter)**



**Table 7** shows a sample of the top DLA suppliers, specifically for the Hardware Supply Chains. As shown, DLA has already established strategic alliances with 18 of these top 25 suppliers. The remaining 7 are being further analyzed to determine if alliances are feasible given the number of items they manage, stability of customer demands for the items they supply, the weapon systems they support, and each supplier’s willingness to enter into alliances and long-term contracting arrangements.

DLA is continuing to analyze its current alliances to determine how they can be expanded using this spend data. The goal of the SSA and SCA programs are to add additional DLA managed items to existing long-term contracts, add Service managed DLRs to existing LTCs, and award new LTCs to CAGEs currently under each alliance. Additionally, continual emphasis will be on bringing additional CAGEs for each partner under each Alliance.

Table 7: DLA’s Top 25 Hardware Supply Chain Suppliers



SRM

Top 25 Hardware

08 Rank	COMPANY NAME	LEAD SC	TOTAL OBLIGATIONS	07 Rank
19	GENERAL ELECTRIC COMPANY	AVTN	\$667,826,011.42	376
21	SCIENCE APPLICATIONS INTERNATIONAL	LAND	\$609,486,381.83	9
24	HESCO BASTION	C&E	\$538,437,882.77	19
30	LOCKHEED MARTIN CORPORATION	AVTN	\$431,643,007.66	116
42	ATLANTIC DIVING SUPPLY	C&E	\$299,031,563.59	25
43	AM GENERAL, LLC	LAND	\$298,048,432.57	566
46	HONEYWELL INTERNATIONAL INC	AVTN	\$280,979,172.95	35
55	HRT EXTRON INC	AVTN	\$240,080,960.47	71
64	THE BOEING COMPANY	AVTN	\$203,758,567.17	63
65	BAE SYSTEMS	AVTN	\$203,689,679.15	148
70	MICHELIN	LAND	\$187,827,799.99	N/A
72	SUPPLYCORE	C&E	\$184,814,754.47	29
74	RAYBAR ELECTRIC COMPANY	C&E	\$181,128,877.08	27
77	Caterpillar	LAND	\$166,803,443.62	58
78	PBATT & WHITNEY	AVTN	\$163,549,523.64	91
80	SIKORSKY AIRCRAFT CORPORATION	AVTN	\$161,886,103.72	74
81	PARKER HANNIFIN CORPORATION	AVTN	\$158,380,686.26	89
83	EATON AEROSPACE LLC	AVTN	\$157,291,702.88	99
96	ROLLS-ROYCE CORPORATION	AVTN	\$121,521,331.45	49
98	HAMILTON SUNDSTRAND CORPORATION	AVTN	\$117,679,862.32	81
100	RAYTHEON CO	MRTM	\$112,906,446.70	143
106	KAMPI COMPONENTS CO	MRTM	\$104,404,493.90	101
107	AAR CORP	C&E	\$104,103,527.30	61
112	SOLUTIONS DIRECT	C&E	\$98,996,063.17	115
115	CANADIAN COMMERCIAL CORPORATION	AVTN	\$93,366,293.00	146
TOTAL	\$5,887,642,568.96	PERCENT OF TOTAL	7.7%	

18 of Top 25 covered by SSAs / SCAs

Infrastructure Which Has Enabled DLA Strategic Sourcing Success

DLA’s acquisition organizational structure has contributed to the achievements outlined in this report. DLA HQ J-7, under the direction of DLA’s Senior Procurement Executive (SPE), provides acquisition oversight for the Agency, develops and monitors policy, manages complex acquisition programs that span the Enterprise, and approves large acquisitions. Each ICP has a SES Head of Contracting Activity (HCA) that manages the day-to-day acquisition functions of their respective ICP and reports to the DLA SPE. Within each ICP, the SMSGs develop and implement strategic initiatives and coordinate their actions with DLA HQ to ensure integration with Agency goals and processes. This synergistic and integrated approach ensures a cohesive process for developing, implementing and monitoring programs, systems and processes under the SRM program.

An integrated infrastructure is also in place to manage each strategic alliance, as seen in **Chart 3**. The SMSG executes and monitors the long-term contracts under each alliance. The Supplier Relationship Manager acts as the operational DLA lead for the alliance and coordinates all DLA activities associated with the supplier. The Joint Steering Group is comprised of middle management from the government and the supplier. It tracks the alliance’s metrics, projects and initiatives, and develops improvement opportunities to expand the alliance and improve performance by the government and the supplier. An Executive Committee comprised of senior level managers from the government and the supplier resolve major issues and sets the strategic direction for the alliance.

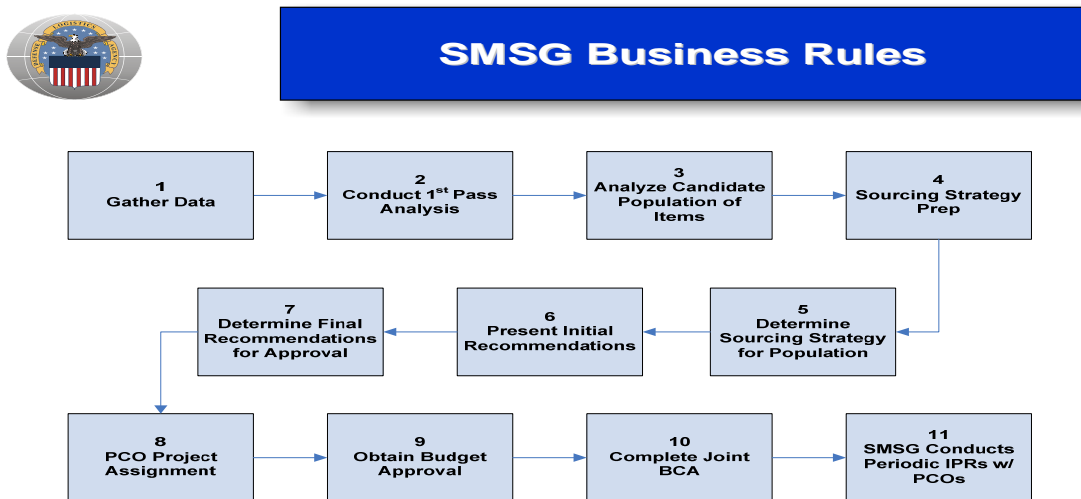
Chart 3: DLA Strategic Alliance Structure



**SMSG Business Rules**

DLA has developed Strategic Material Sourcing Group Business Rules that outline the steps for developing requirements for strategic sourcing initiatives. These Business Rules were modified in Fiscal Year 2008 to include steps for integrating Service managed DLRs. **Figure 7** outlines the process established by these Business Rules.

Figure 7: Process Flow for DLA’s Strategic Material Sourcing Business Rules



## Other Lessons Learned and Best Practices

- Integrate BRAC mandated DLR suppliers and procurement spend within existing DLA SRM and SMS programs, to include adding DLRs to DLA's strategic sourcing arrangements and adding DLA items to the Services' arrangements. This process is governed by the aforementioned SMSG Business Rules.
- Develop a process and system to identify existing LTCs awarded by DLA and the Services to expand joint strategic sourcing opportunities.
- Continue to identify candidate items for new strategic arrangements and addition to existing arrangements under SSAs, SCAs, and PBL contracts.
- Conduct updated spend analysis annually based on most recent procurement data to identify potential new SSA and SCA partners, to include spend data on Service managed DLRs.
- The Supply Chains will hold annual Senior Executive Partnership Round Tables in FY 2009 that include Senior Leaders from DLA, the Services and the suppliers. These forums provide an opportunity for senior level government and industry personnel to establish goals, discuss support issues, and review performance metrics.
- DLA HQ will host a Supplier Relationship Management Summit in FY 2009. This Summit will enhance communication of SRM efforts for SSAs and SCAs across the Supply Chains and provide a forum for discussion of common and unique issues.
- DLA's third annual Strategic Partner's Conference will be held in March 2009.
- Continue to employ best practices such as One Pass Pricing, where pricing transparency allows for a greater number of items to be added under long-term contracts and ultimately reduces lead times and costs
- Track milestones for the planned PBL initiatives shown in **Appendix C** for FY 2009 through FY 2011.
- Hold annual PBL meetings with each of the Military Service acquisition and program management leading activities.
- Continue to provide monthly briefings to Senior Leadership, up to the DLA Director, to ensure top level visibility and support for the various strategic sourcing programs.

- Work with the Services to continue the development of a joint vendor scorecard.
- Continue refining metrics for all strategic sourcing initiatives based upon lessons learned, and government and industry benchmarks.

**FUTURE STEPS: RECOMMENDATIONS FOR FUTURE INITIATIVES BASED ON LESSONS LEARNED AND BEST PRACTICES**

- Institutionalize goals and processes for major projects from the working level up to the Senior Leadership level.
- Ensure goals and processes are accepted and understood by operational personnel responsible for developing and executing strategic opportunities.
- Provide annual strategic sourcing training to operational personnel to equip them with the latest and most efficient tools to assist them in meeting goals. For example, a Strategic Sourcing Workshop will be held in November 2008 that will provide data analysis and strategic sourcing process training to the SMSGs. Training will be provided by personnel from DLA HQ, DAU and industry.
- Develop milestones for projects that outline planning as well as execution steps, to include milestone dates that are not allowed to change without Senior Management approval.
- Obtain a Senior Leadership champion for major programs/projects, and have that champion officially endorse the program/project via official communication to those responsible for oversight and execution.
- Engage with all the Military Services to ensure a DoD leveraged approach to obtaining supplier support. Ensure this engagement occurs early in the strategic sourcing development process.
- Use lessons learned from across DoD. For example, coordinate with activities that have had successes in developing and awarding PBL contracts before beginning planning steps.

**SUMMARY AND NEW FOCUS AREAS**

**Outcomes of FY 2008 SRM Programs**

**Table 8** summarizes the primary outcomes of DLA’s strategic sourcing initiatives in FY 2008.

<b>Table 8: Primary Outcomes of DLA’s Strategic Sourcing Initiative through FY 2008</b>		
	<b>FY 2008 Goal</b>	<b>Outcome</b>
Net Growth in SMS NSNs on LTC	4,705	6,514
Total number of SMS items on LTC		120,683
SMS LTC Renewals	5,863	7,524
SMS Inventory Savings	\$48 million	\$67.8 million (through 3 <sup>rd</sup> QTR) – Cum savings of \$266.0 mil since FY 2009
SMS NSNs on LTC – ALT		1.6 days
SMS NSNs on LTC – PLT		29.4 days
SMS NSNs on LTC – Material Availability		90.69%
LTC Obligation Rate (for Hardware Supply Chains)	63.6%	59.2% - under goal but highest in DLA history
SSAs in place	24	28
# SSA NSNs on LTC		64,489
SCAs in place	12	22
# SCA NSNs on LTC		30,526
#PBLs in place with DLA as a partner		36
# PBLs planned for FY 2009 - 2011	5-15	15



## **DLA's New Role under Base Realignment and Closure (BRAC) 2005**

While the BRAC decisions are primarily designed to increase the effective use of Department of Defense (DoD) resources, they can also create added value for defense contractors and suppliers, as the 2005 BRAC decision will in the long run. A portion of BRAC 2005 will further a long-standing DoD strategic objective—strategic sourcing—by transferring procurement of depot-level reparables, commonly known as DLRs, as well as the management of remaining consumable items to the Defense Logistics Agency. This establishes a single defense agency, acting in a joint capacity for the military services, as the direct interface with the logistics industrial base, leveraging DoD's purchasing power with its suppliers. While this move takes DoD one step closer to focusing its abundant spending power on achieving long-term joint savings for the military consumer, it also benefits suppliers by providing a “single face” point of contact. Contracts by individual DoD organizations can now be replaced with DoD Enterprise-wide contracts, which will enable industry to streamline its government contract processes and deal with a single DoD “buyer.”

BRAC requires the transfer of procurement management functions for DLRs from specific military service locations to DLA inventory control points based on Supply Chain affiliation, i.e., Land, Maritime, or Aviation. For the U.S. Army, these locations include:

- Tank and Automotive Command (to include procurement management of items relocating from Rock Island Arsenal, Illinois);
- Aviation and Missile Command (Redstone Arsenal, Alabama); and
- Aberdeen Proving Ground, Maryland (to include procurement management of items relocating from Fort Monmouth, New Jersey).

For the U.S. Navy and U.S. Marine Corps, these locations include:

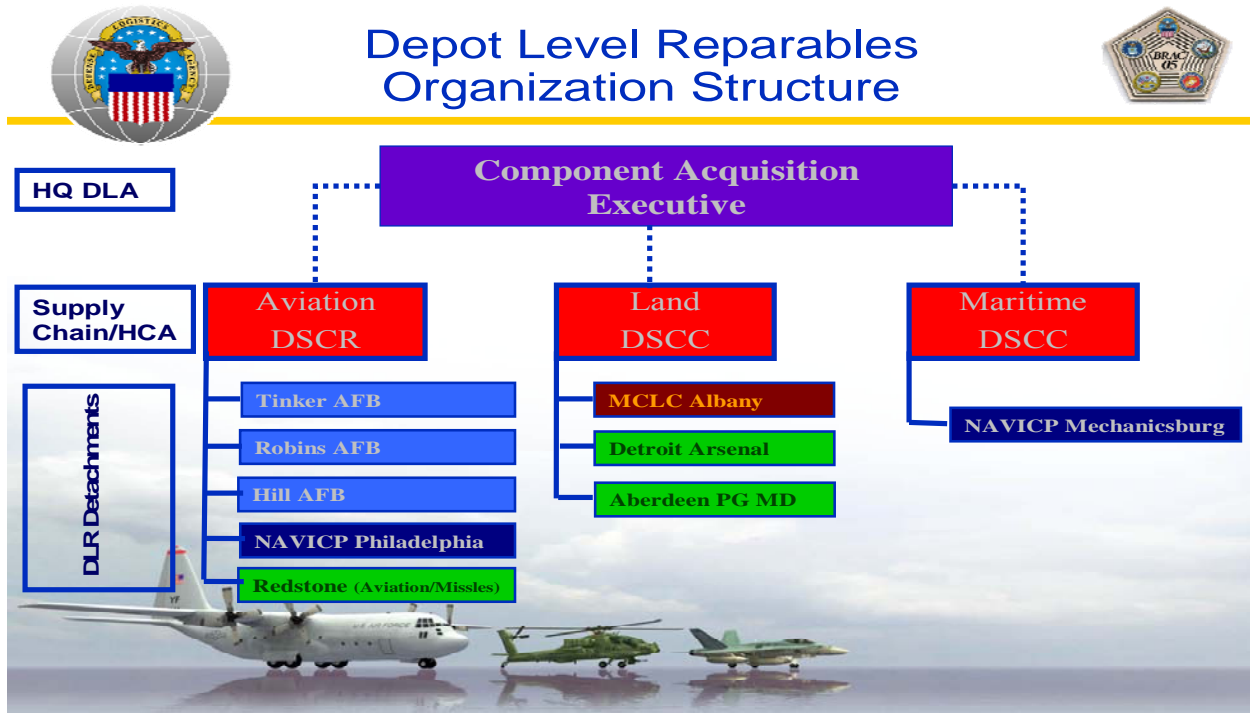
- Naval Inventory Control Point, Philadelphia, Pennsylvania;
- Naval Inventory Control Point, Mechanicsburg, Pennsylvania; and
- Marine Corps Logistics Command Albany, Georgia.

For the U.S. Air Force, these locations include:

- Warner Robins Air Force Base, Georgia;
- Tinker Air Force Base, Tinker, Oklahoma; and
- Hill Air Force Base, Ogden, Utah.

**Figure 8** shows the alignment of these military locations to the current DLA Supply Chains managed at its Defense Supply Centers in Columbus, Philadelphia, and Richmond. Additionally, consumable items are also being moved to DLA for inventory management and procurement purposes. All of these transfers increase DLA's annual purchases of sustainment logistics items for Aviation, Land, and Maritime by approximately \$4 billion annually. These realignments will result in a net present value savings of \$1.8 billion over the next 20 years.

**Figure 8: Depot Level Repairables Organization Structure**



**Figures 9 and Figure 10** graphically display how DLA’s process for procuring new DLRs. The warfighter will submit their requirements to their respective lead Service. A DLA DLR buyer will support their transactional requirements. The resulting demand data will be aggregated with DLA consumable demand data by the Strategic Material Sourcing Group (SMSG) within the lead DLA Supply Chain that supports the particular warfighter. For example, the Aviation Supply Chain supports the requirements of Aviation customers. The SMSG will develop joint strategic sourcing opportunities that include DLRs and consumables. The strategy will be forwarded to the DLR Governance Board and finally to the DLA Senior Procurement Executive (SPE) for approval (depending upon scope and dollar value). The Governance Board includes representatives from the Services and DLA. The approved strategic initiative will either be awarded by the SMSG or an assigned DLR detachment.

As shown in **Figure 11**, requirements data for Service managed DLRs and DLA consumables will be merged via the new Strategic Material Sourcing BRAC tool. The tool analyzes Military Service DLR repairable data and DLA consumables data to create potential strategic opportunity packages of items. It allows the Strategic Sourcing Specialist within the SMSGs to view consolidated data, evaluate groups of items expeditiously, record and maintain logic to group items, and assign status to packages developed.

Figure 9: The DLA DLR Procurement Process

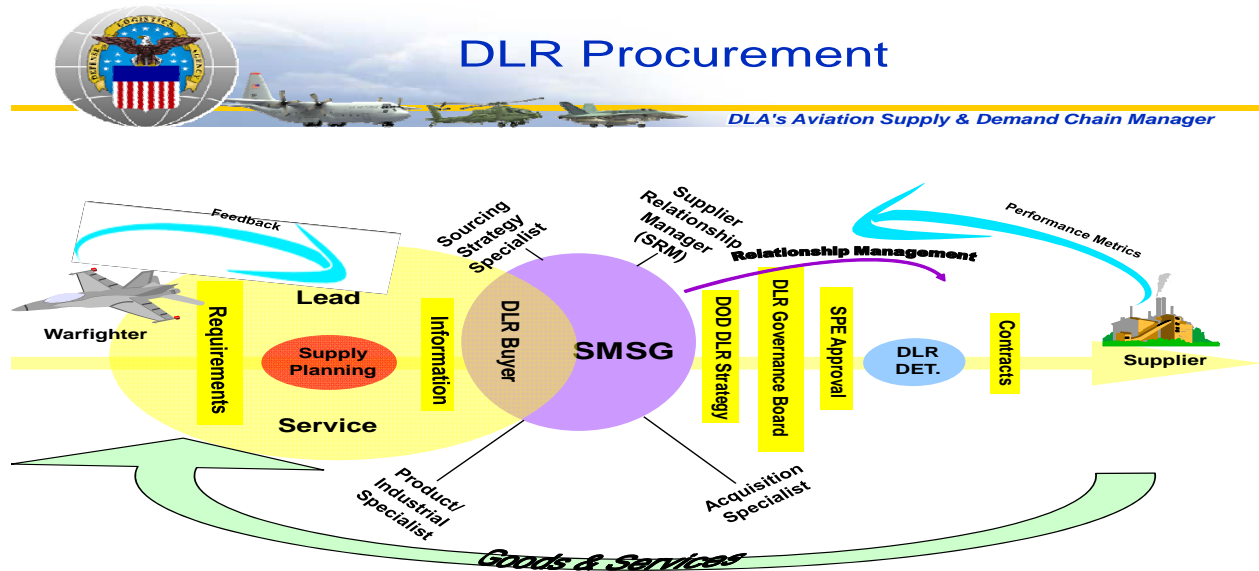


Figure 10: Joint Strategic Sourcing Process for Service DLRs and DLA Consumables

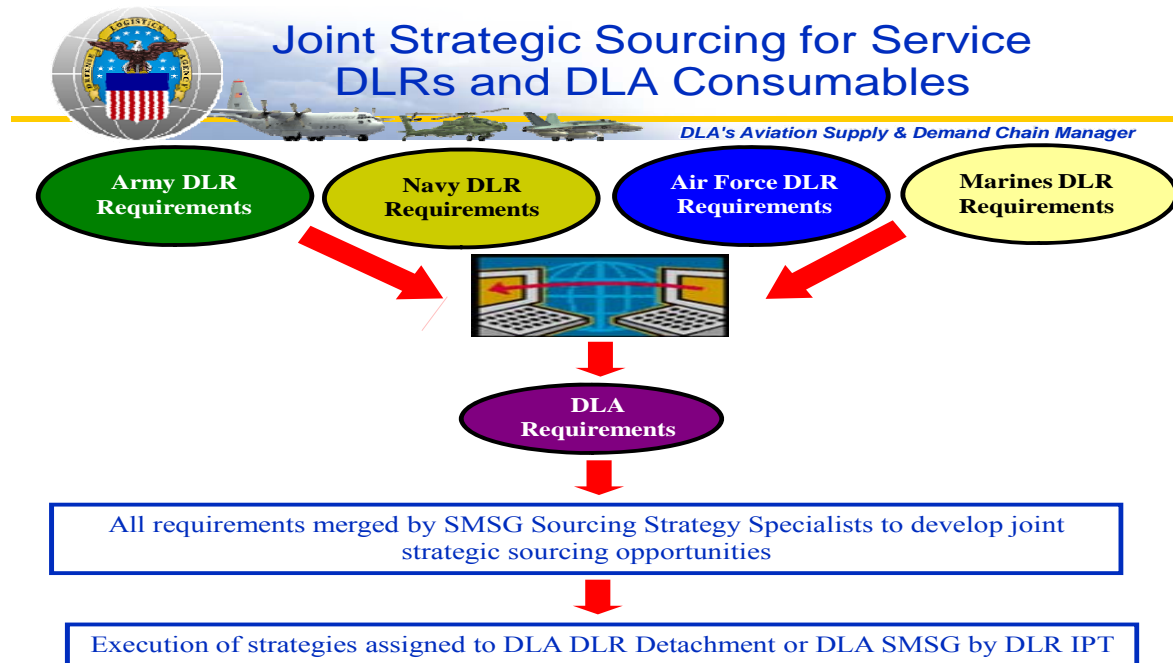
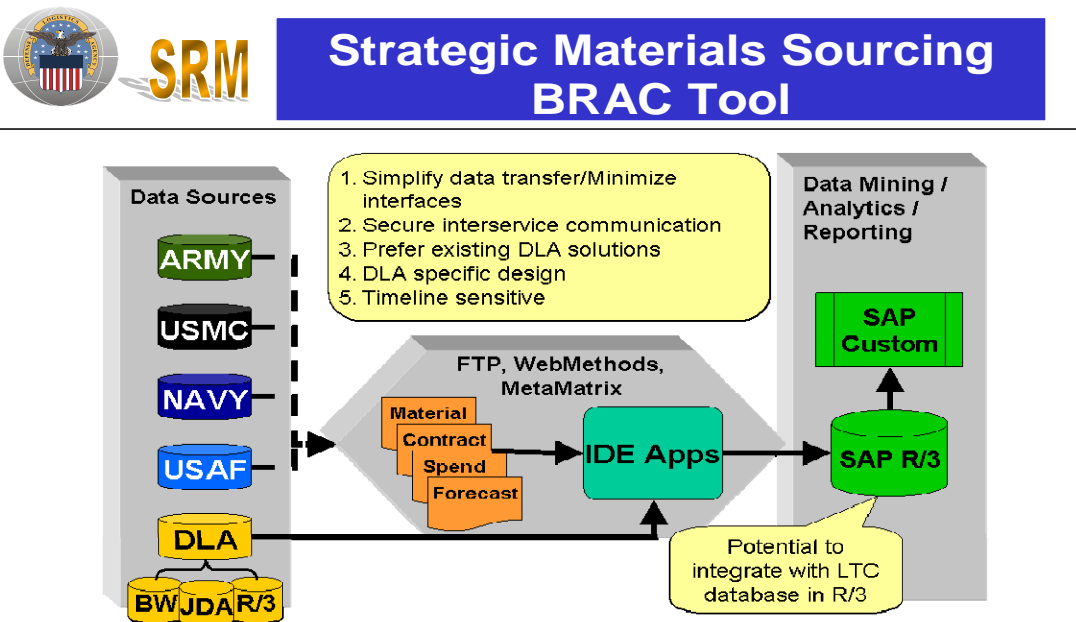


Figure 11: The DLA Strategic Material Sourcing BRAC Tool Process Flow



### Demand and Supply for Internal Support: Strategic Sourcing for Services

DLA is analyzing how it commercially acquires internal support in order to enhance strategic sourcing for services. Led by the DLA Contracting Services Office (DCSO), this analysis is being conducted to achieve the following:

- ✓ Identify opportunities to increase the efficiency and effectiveness of the DLA funds spend for internal support.
- ✓ Improve resource use by changing how the support is acquired and who acquires it.
- ✓ Improve “Demand Planning” for internal services and supplies.
- ✓ Leverage buying power and lower internal costs by combining Agency requirements for like items/services.

The DCSO has completed a spend analysis of services acquired over the most recent fiscal years and is developing structured and strategic recommendations. These recommendations include the following:

- Improving planning for internal supplies/services contract requirements
- Expand studies of business process designs

- Proactively address contract requirements through DCSO Centers of Excellence (COE), such as a COE for IT and management consulting

### **The Defense National Stockpile Center's Strategic Sourcing for Titanium**

DLA is developing initiatives to strategically support the acquisition of critical components required to support the military services. The Defense National Stockpile Center, a part of the Defense Logistics Agency, is responsible for providing safe, secure and environmentally sound stewardship for strategic and critical materials in the United States National Defense Stockpile (NDS). An early form of the NDS was created just before World War II with the mission to acquire and store metals, minerals and agricultural supplies. The stockpile of materials was intended to decrease dependence upon foreign sources of supply during national emergency.

Titanium is an example of one of these critical components that DNSC is supporting. DoD and DLA hosted a Titanium Symposium in August 2008 to address concerns regarding the production lead times, overall availability of material, and pricing levels. Market research identified that the supply of aerospace titanium has softened but price levels remain high and production lead times continue to grow. There appears to be a contradiction in the normal economic relationship of supply/demand/pricing. The conference focused on obtaining a better understanding of these concerns and to hear industry's perspective on what circumstances might be contributing to these issues. The conference served to create a Government and Industry partnership to discuss titanium (production, prices, scrap utilization, economic trends), and how it relates to satisfying DoD contract requirements. As a result of conference findings and market research, DNSC plans to award a five-year multi-million dollar long-term contract in FY 2009 that will strategically support the identified titanium requirements of the Army and Navy. DNSC has also fully engaged with the Air Force to discuss possible strategies to support their needs, specifically focusing on titanium needs for the F-22 and potential supply concerns for the F-35.

**APPENDIXES**

**Appendix A: Strategic Material Sourcing Categories**

**Appendix B: Strategic Supplier Alliance (and Supply Chain Alliance) Metrics Matrix**

**Appendix C: Performance Based Logistics Initiatives DLA is Partnering in by Fiscal Year**

**Appendix D: DLA Partnering Efforts on Air Force Commodity Councils**

## Appendix A: Strategic Material Sourcing Categories

**Sales Drivers:** An analysis of the DLA Sales Drivers to determine which NSNs were strategically important to the business base of the Supply Chains based on the dollar value of sales. The Pareto Principle holds that in many populations, approximately 80% of occurrences are caused by approximately 20% of the items. It is generally held that by focusing on these “significant few”, greater results can be obtained. For DLA, this 80/20 rule implied that 80% of sales revenue should be generated by 20% of the items.

**Demand Drivers:** To address concerns that the previous Sales Driver list had been too heavily weighted toward higher cost items, Pareto analysis was run on the NSNs’ Annual Demand Frequency (ADF) and a new category of items was identified. The Pareto analysis added a significant number of items that wouldn’t have been captured using a sales-only look, particularly items that have high demands but low costs.

**Non-Mission Capable Supply (NMCS) Analysis:** Weapon systems that are coded NMCS are determined to be not mission capable until a requisitioned spare part is made available and the required maintenance action completed. The Service-specific coding within the Military Standard Requisitioning and Issues Procedures (MILSTRIP) requisition format was used to define NMCS NSNs for this analysis.

**The Warstopper List:** This list represents items identified in the population of DLA managed War Reserve and Surge and Sustainment NSNs. Items were included in the SMS population if they had experienced at least one demand in the past two years, but lacked surge contractual coverage. The Warstopper list is a filtered, hierarchical NSN list based on War Reserve, ICIS Model, and JCS data.

**Readiness/Critical Items:** Readiness Items are Service identified as essential to a weapon system’s operation; essential to personnel safety; or needed for legal, climatic, or other peculiar operational requirements. (Weapon System Indicator Codes F, L, T, G, M, W, H, P or X).

**Supply Chain Focus:** Each of the Supply Chains identified items they felt were important to initiatives and directives they were responsible for managing. The Supply Chains included items for such programs and initiatives as Air conditioning parts, Batteries, combat vehicles, portable bridges, tires, and the nuclear submarine program.

**Add-backs: (not used in FY 2009):** In order to ensure recognition of the work the Supply Chains have done in putting SMS items on LTC, any item that was in the previous SMS list and is currently on LTC or a LTC project in the process of being awarded but did not meet the criteria to meet the current FY SMS criteria continues to be counted as an SMS item.

**Forecast Drivers (new measure for FY 2009):** Pareto percentage (same Pareto used for Supply Chain Sales and Demand drivers) of the forecasted item consumption rate over the next 12-24 months.

**Appendix B: Strategic Supplier Alliance (and Supply Chain Alliance) Metrics Matrix**

# SSA Metrics Matrix



	Baseline Source	VPS Metric	World Class	Green	Yellow	Red
<b>Annual Obs</b>	Previous Year	% of Annual Awards on LTC	90% on LTC	Increase $\geq 10\%$ points	Increase $\geq 5\%$ & $< 10\%$ points	Increase $< 5\%$ points
<b>ALT</b>	Previous Year	ALT	$\leq 10$ Days	Reduction $\geq 5\%$	$< 5\%$ & $\geq 3\%$	Reduction $< 3\%$
<b>PLT</b>	Previous Year	No VS Metric – Use current calculation	Aviation: 75 days Maritime: 75 days Land: 90 days IPG for DVD: 2, 5, 12 days	Reduction $\geq 5\%$	$< 5\%$ & $\geq 3\%$	Reduction $< 3\%$
<b>Quality</b>	NA	VPS - #PQDR/Total lines shipped during the month	0 defects	$\leq 2\%$ PQDRs	$> .2\%$ & $< .5\%$	$\geq .5\%$
<b>Unfilled Orders</b>	Previous Year	Unfilled Order: Raw Numbers (No Ratios)	$< 5\%$ Total period acquisition backorders	Reduction $\geq 20\%$	$< 20\%$ & $\geq 10\%$	$< 10\%$
<b>Price Control</b>	Previous Year	Cost Reduction / Price Controls	Reduced Price	$< 5\%$ price escalation	$\geq 5\%$ & $\leq 8\%$	$> 8\%$ price escalation
<b>On Time Delivery</b>	NA	Vendor Line Fill Rate	98% on time	$\geq 90\%$ on time delivery	$< 90\%$ & $\geq 80\%$	$< 80\%$ on time delivery



**Appendix C: Performance Based Logistics Initiatives DLA is Partnering in by Fiscal Year**

Prior to FY 2005	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	2012
21N (Nuclear Propulsion Program)	Common Ground Station	B-1	H-53 Phase 1	Secondary Power Logistics System	B-1B Flight Control	H-1 Upgrade		Future Combat System
Close In Weapons System	EA-6B	C-130, KC-135, E-3 Landing Gear	AH-64/CH-47	AV-8B HISS	F-15*	Ground/Air Task Oriented Radar System (G/ATOR)		Littoral Combat Ship
Dry Deck Shelter	F/A-18 FIRST	Environmental Control Units	T700 Engine	Bridge Erection Boat	Consolidated Automated Support System			
J52 Engine	F/A-18 Direct Sales	Floodlights		Firefinder	363 Ton Air Conditioning Plant*			
Joint STARS (Total System Support Responsibility)	F 404 Engine Synchronized Supply Chain *	H-46 Comp Phase 1		Hydroseeder	Gas Turbine Generator*			
Kelly Aviation Center	Insulation Material	Integrated Logistics Partnership for the HMMWV*			MK-48 Torpedo			
S-3	KC-135	KC-135 Unplanned Depot Maintenance			Mine Resistant Ambush Protected Vehicles			
Seal Delivery Vehicle (SDV)	T55 Engine	Sentinel			Theater High Altitude Area Defense Missile System			
SLQ 32 (Variable Depth Minehunting Sonar)		Tactical Satellite			Howitzer Medium Towed			
		Tactical Water Purification System			KC-135 ILP*			
		UH-60 Overhaul			Common Aviation Command and Control System			

(\* DLA awarded or planned PBL)

**Appendix D: DLA Partnering Efforts on Air Force Commodity Councils**



***DLA Commodity Council Integration***

*DLA's Aviation Supply & Demand Chain Manager*

**Commodity Councils**

- Accessories & Instruments (Tinker AFB)*
- Propulsion (Tinker AFB)*
- Landing Gear (Hill AFB)*
- Secondary Power Systems (Hill AFB)*
- Support Equipment (Robins AFB)*
- Aircraft Structural (Robins AFB)*
- Communications & Electronics (Robins AFB)*

**Hill AFB**

***Landing Gear***

- **AF Prime Vendor Contract** - 3,000 AF & 384 DLA consumables.
  - **AFPVC Spiral 2** – AF Contract, # NSNs TBD
  - **Aircraft Braking Systems** – DLA contract, 355 DLA & 35 AF consumables
  - **CEF** – DLA KT, adding AF NSNs, # NSNs TBD
  - **Goodrich** – DLA umbrella, adding 66 AF reparable
- Secondary Power Systems (Spirals)***
- **Spiral 1** - Honeywell AF PBL, DLA drawdown effort, 34 NSNs
  - **Spiral 1.2** - Honeywell AF PBL DLA drawdown effort, 1277 NSNs
  - **Spiral 3** - AF PBL, Hamilton Sundstrand is interested in DLA becoming a full PBL partner for all consumables

**Tinker AFB**

***Tinker Commodity Council (old Accessories & Instruments and Propulsion Commodity Councils)***

- **B-1 Flight Controls** – AF PBL, DLA drawdown effort
- **F-15 Gyro** – AF PBL Contract, initial analysis complete on 209 P/Ns, # NSNs TBD, DLA drawdown effort
- **Pratt & Whitney** – TF33 AF PBL, 234 AF consumables only, Not awarded, AF possibly going to add them to DLA Contract
- **J85 Engine** – AF PBL Contract, 1377 DLA NSNs, DLA Drawdown

**Warner-Robins AFB**

***Support Equipment***

- **No In Process projects**

***Aircraft Structural***

- **Boeing** – DLA contract, adding 93 AF reparable
- **Northrup Grumman** – AF contract, DLA consumables # TBD
- **C-130 Flaps** – AF and DLA contracts, 4 AF and 238 DLA NSNs

***Communications & Electronics***

- **F-15 TEWS** – AF PBL Contract, 8,162 DLA NSNs, DLA drawdown
- **ALQ-172** – AF PBL Contract, DLA Drawdown and possible 3PL, # NSNs TBD

**SECTION 2:**  
**US AIR FORCE**  
**ANNUAL REPORT ON STRATEGIC SOURCING**  
**FISCAL YEAR 2008**

**EXECUTIVE SUMMARY**

The United States Air Force continued to focus on strategic sourcing as one of its primary initiative in fiscal year 2008 (FY08). There are several ongoing strategic sourcing initiatives which continue to deliver value and expand in scope. Through these ongoing initiatives the Air Force has achieved significant results. The total baseline spend covered by these initiatives is over \$540 million. The total FY08 cost reduction resulting from these strategic sourcing initiatives is over \$78 million.

In addition to the ongoing initiatives the Air Force has also been diligently working on the implementation of the Installation Acquisition Transformation (IAT). This effort transforms installation contracting from a tactical, localized organization to a regionalized, multifunctional, strategic organization. The Air Force has been successful with the strategic sourcing efforts initiated to date, but the total spend covered under those initiatives is a small percent of the total Air Force spend. The goal of IAT is to allow the Air Force to use its resources more effectively in order to increase the strategic sourcing efforts and associated spend.

**STATUS OF ONGOING STRATEGIC SOURCING INITIATIVES**

**Highlights of Results**

The Air Force ongoing strategic sourcing initiatives are part of the 10 existing commodity councils. The councils are oriented around a specific commodity, which could be a good or a service, and develop strategic sourcing strategies for the components of the strategy. The commodity councils are grouped into one of two categories, depending on the commodity characteristics. The first set of commodity councils focuses on sustainment commodities. The second set of commodity councils focuses on Air Force-wide installation commodities.

*Sustainment Commodity Councils*

*Aircraft Structures Commodity Council (ASCC)*

The Aircraft Structures Commodity Council (ASCC) focuses on an extremely diverse group of technologies. This group consists of many items that are flight critical and essential to safe operation. The aircraft structures commodity is comprised of 4 Federal Supply Codes (FSCs): 1560 Airframe Structural Components; 1610 Aircraft Propellers & Components; 1615 Helicopter Rotor Blades, Drive Mechanisms & Components; and 5342 Hardware, Weapon System. Examples of aircraft structural items are: radomes; canopies; windows; windshields; ducts; helo blades & gearboxes; structural fittings; engine cowlings; fuel tanks; panels/fairings

(composite/metal bond/Kevlar); flight control components (spoilers; flaps; aileron; elevators; rudder); aircraft, access, and cargo/personnel doors. Although there are a total of 115,000 national stock numbers (NSNs), only 2,370 NSNs are viable strategic sourcing candidates.

The major stakeholders for this commodity council include the 406th Supply Chain Management Squadron Director, Item Managers, Aircraft Structures Commodity Council, numerous Supply Chain Managers, and Organic Depots. Stakeholders have been involved in the analysis, strategy brainstorming, and commodity acquisition management plan (CAMP) briefings.

The nature of the market for this commodity is comprised of 242 contractors with 982 contracts, of which 61% are sole sourced, 35% are competitive and 4% are unknown.

The FY08 sourcing strategies for this commodity are: Small Business Set-Aside Award – Strategy 7 (Bonded Structures Competitive Spares); Full & Open Multiple Award – Strategy 7 (Bonded Structures Competitive Spares); Efforts to move under DLA management – Strategy 1 (Boeing Corporate Contract). These strategies were chosen based on market/benchmark research, spend analysis, feasibility, stakeholder analysis, and Purchasing and Supply Chain Management (PSCM) goals. The previous method of procuring this commodity was tactical vs. strategic.

On Strategy 1 the ASCC has realized \$4.4 million in cost avoidance generated from reduction in administrative processes due to the elimination of synopsis and/or justification and approval (J&A) process days. The total spend on Strategy 1 for FY08 was \$24.7 million. The ASCC also achieved a 40 day acquisition lead time (ALT) reduction in this strategy. There was no need for a synopsis; therefore, ALT was reduced by 15 days per order. ALT was further reduced by 5 days due to a quick J&A process for 2 orders. This contract has been transferred to Defense Logistics Agency (DLA) management and should be reflected in that agency's FY09 strategic sourcing report.

The FY09 sourcing strategies for this commodity are: Single Award indefinite delivery indefinite quantity (IDIQ) - Strategy 7 (Flight Controls Competitive Spares); and Full & Open Multiple Award – Strategy 7 (Machined Parts Competitive Spares). The ASCC is investigating the opportunity to develop a partnership between ASCC, Organic Depot and DLA to support the Warner Robins C-130 Flap Shop – Strategy 9 (Organic Repair).

#### *Communications & Electronics Commodity Council (CECC)*

The Communications & Electronics Commodity Council (CECC) focuses on a diverse spectrum of electronics and communication technologies. This includes: repair, spare, engineering services, and modifications. It consists of organic, contract & dual repair and sole source and competitive suppliers. The commodity profile consists of 77 Federal Supply Codes / with 10 Federal Stock Groups. There are 12,352 Active NSNs (FY04-FY09 Universe). There are 6,742 at Warner Robins Air Logistics Center (ALC), 2,284 at Oklahoma City ALC and 3,326 at Ogden ALC. This commodity has an enterprise-wide impact; it affects all Air Logistics Centers and most major commands (MAJCOMS). The CECC is in process of briefing strategies and getting stakeholder buy-in. The commodity is largely sole source to large businesses with little small business involvement.

In the CECC eight performance based logistics (PBL) sub-system level strategies have been identified and prioritized. Sub-system strategies have been selected based on number of items comprising a sub-system, forecast dollars and current support metrics that offer the greatest potential pay back to the government. The previous acquisition focused on individual spare, repair and engineering service transactions. The current strategy is to acquire and increase availability for the sub-systems.

In the CECC's Teledyne effort the baseline spend for FY08 was \$6.8 million. This strategy achieved a cost reduction of over \$51 thousand. It reduced the ALT by 73 days with an average ALT of 15 days compared to the ALT of a standalone contract at 88 days. The CECC also reduced the number of contracts for this effort from 16 to 9. This is a further reduction from FY07 where the number of contracts was reduced from 36 to 16. The reduction in contracts enables a more efficient use of resources, especially in the reduction of contract administration efforts.

The other major effort within the CECC is the Chelton/Nurad contract. This effort had a baseline spend of \$1.2 million and achieved a cost reduction of over \$34 thousand in FY08. The commodity council also reduced the ALT by 63 days with an average ALT of 8 days compared to the ALT of a standalone contract at 71 days. The CECC also reduced the number of contracts from eleven to five.

In FY09 the CECC will continue to flesh out the strategies approved in FY08. The strategies offering the most potential payback will be pursued first. The CECC will also continue to focus on sub-system availability rather than individual spare, repair and engineering service transactions.

#### *Support Equipment Commodity Council (SECC)*

The Support Equipment Commodity Council (SECC) supports 97 FSCs representing a very diverse mix of items, such as weapon system testers, stand alone equipment, vehicles, life support items and hand tools. Typically these are low demand items with sporadic buys, and are mostly competitive in nature. Many small businesses are available to manufacture and manage these items. The major stakeholders are at Warner Robins ALC. The SECC should move to the Air Force Vehicle Equipment Support Agency (AFVESA) organization sometime in FY09.

In FY08 the SECC completed two mini-Commodity Acquisition Management Plans (CAMPs) and briefed to the appropriate supply chain managers (SCMs) for approval and concurrence. The E-Buy strategy is for a group of manufacturing items that are competitive and have a unit cost greater than \$10 thousand. The analysis of sole source items greater than \$10 thousand, determined that no benefits could be derived and items should remain as tactical contracts. The SECC provided mentoring to individual SCM integrated project teams (IPTs) through guidance, knowledge and resources to implement effective solutions for achievement of their program objectives. These programs include USM 464A PBL Versatile Depot Automatic Test Station (VDATS) performance based agreement (PBA), Benchtrop Reconfigurable Automatic Testers (BRAT) PBL, Engine Trailer service life extension program (SLEP), and Hush Houses. Based on strategies already put in place by the SECC, 72% of the buy NSNs have been covered by

contractual vehicles. Future strategies will address repairs, PBLs, items with estimated unit prices greater than \$20 thousand, and the other buy items in the universe.

The SECC third party logistics (3PL) contracts had a baseline spend of \$12.2 million in FY08. This generated an administrative cost avoidance of over \$2 million. The SECC also decreased from 879 contracts to 75 orders in FY08. The ALT stayed low in FY08 at 7.25 days. Prior to the commodity council efforts the ALT was 127 days. This effort is awarded to 100% small businesses, which assists the Air Force in meeting small business goals.

The Radio Frequency Transmission Line Test Set (RFTLTS) PBL contracts had a baseline spend in FY08 of \$683 thousand. The estimated contract value for this effort is \$7.2 million over seven years. The strategic sourcing efforts generated \$40 thousand in cost savings and \$18 thousand in cost avoidance. The ALT for this strategy was reduced by half, from 14 to 7 days. In addition, the SECC achieved a 20% mission capable (MICAP) hours reduction.

Another effort within the SECC is the Honeywell contract. This effort had a baseline spend of \$17.3 million in FY08. They achieve a 4.84% reduction in admin costs. The ALT for this effort remained constant at 15 days, which is a 50% reduction from the ALT prior to strategic sourcing. The SECC continues to maintain and reduce MICAP hours. In FY08 the SECC achieved approximately a 15% reduction.

The final effort within the SECC is the Oscilloscopes contract. It had a baseline spend of \$211 thousand in FY08. This is on target with the projected spend of \$1.5 million contract value over 5 years. The ALT decreased from 30 days in FY07 to 24 days in FY08.

In FY09 the SECC is projecting possible PBL/PBA contracts for USM464A , BRAT and VDATs Testers, and a SLEP for Engine Trailers. These efforts are part of the Commodity Council Mentoring Efforts with the SCM IPTs. Typically these items are purchased on a tactical basis. The SECC also plans to re-engage/re-analyze the competitive E-Buy data. This strategy was put on hold at the request of the SCMs to allow the commodity council to focus their attention on mentoring the IPTs. As strategies are completed, additional analysis of commodities remaining in the SECC universe will be conducted and potential strategies evaluated.

#### *Landing Gear Commodity Council (LGCC)*

The Landing Gear Commodity Council (LGCC) includes 2206 NSNs in the following federal stock classes: FSC 1620 LG Components and FSC 1630 Wheels and Brakes. Typically 90% of the spend is awarded to 13 suppliers supporting 17 weapon systems. In FY 00-02 the vast majority of contracts were tactical with 860 contracts and 1,100 contract actions. The total FY08-10 forecast buy for the commodity is \$386 million, while strategic contracts for FY08-10 equate to \$196 million. The total FY08-10 organic repair spend is estimated to be \$843 million. The total FY08-10 contract repair is anticipated to be \$91 million. LGCC is working with SSRM and DLA to develop strategic contracts for sole source items. The main initiative within this commodity is the Landing Gear Prime Vendor Contract (LGPVC) competitive small business set aside.

In FY08 the LGCC has focused on the following efforts. In Spiral 1 it added sole source items to existing strategic contracts. Spiral 2 is on hold with the next step of establishing new long term sole source contracts. Spiral 3 focused on awarding a long term competitive contract (LGPVC). The next step is to develop a strategy addressing raw materials issues.

In FY08 the LGCC had a baseline spend of \$26 million in its Spiral 1 effort and a cost reduction of \$4.3 million. In this spiral there were 13 tactical contracts and 36 delivery orders. The tactical contract to delivery order ratio equates to a lower contracting workload.

The LGPVC effort achieved \$20 million in baseline spend for FY08 and anticipates \$43 million for FY09. The LGCC also generated a \$1.1 million cost reduction in this effort and expects an annual cost reduction of \$8.4 million going forward. The commodity council exceeded its goal of a 90 day ALT and achieved a 69 day ALT in FY08. In addition, it reduced the number of contracts from 378 in FY07 to 149 in FY08. This effort was also awarded to 100% small businesses.

In FY09 the LGCC plans to focus on:

- Spiral 1- Adding sole source items to existing strategic contracts
- Spiral 2- Exploring handoff to DLA-00
- Spiral 3- Administering long term competitive contract, (LGPVC)
- Updating the commodity management plan (CMP) and identify new strategies

#### *Secondary Power Commodity Council (SPCC)*

The Secondary Power Commodity Council (SPCC) focuses on Auxiliary Power Units, Jet Fuel Starter, Gearboxes and Accessories, Power Take Off Shaft, and Diesel Engines and Components. SPCC has four viable spirals: Spiral 1: Level 3 PBL with OEM Honeywell. Spiral 2: PTO Shafts – TBD. Spiral 3: Similar to Spiral 1 with OEM Hamilton Sundstrand Corporation (HSC). Spiral 7: Diesel Engines – TBD. The major stakeholders for SPCC include the Program Office for F-16, C-130, F-15, KC-135, A-10, C-5, B-1 and B-2. Also, the Ogden ALC and the Fleet Readiness Center at Cherry Point are the two government repair facilities involved with this contract. Other key stakeholders include Ogden ALC Command Section, 84 Combat Support Wing, Ogden ALC Contracting, 309th Maintenance Wing, Ogden ALC Judge Advocate, Ogden ALC Plans and Programs, Headquarters Air Force Materiel Command, and Air Force Program Executive Office for Combat and Mission Support. The key stakeholders' forum serves to resolve high level overarching SPCC issues. The market for this commodity is limited. Spiral 1 and 3 are sole sourced to Honeywell and Hamilton Sundstrand.

In FY08 the SPCC focused on a sole source Level III PBL for Spiral 1 and 3 utilizing the Power by the Flight Hour concept. Auxiliary Power Units (APUs) for B-2, C-130, and ground carts are being supported under Level III PBL arrangement. Status quo has been to purchase spares as needed and utilizing bridge contracts for repairs not completed by a government maintenance organization. The SPCC had a baseline spend of \$5.7 million in FY08 and achieved a \$366 thousand cost reduction. It anticipates a \$3.1 million cost reduction in FY09 based on 8.4% savings in Spiral 1.

In FY09 the SPCC plans to focus on the sole source Level III PBL for Spiral 1 and 3 utilizing the Power by the Flight Hour concept. It will also continue using Level III PBL for support of B-2, C-130, and ground cart APUs. APUs for B-2, C-130, and ground carts are being supported under Level III PBL arrangement. It will also award additional increment of basic contract to include support of F-15 under Power by the Flight Hour Concept. In addition, the SPCC will award Level III PBL contracts to Hamilton Sundstrand to support F-16 and KC-135.

#### *Tinker Commodity Council (TCC)*

The Tinker Commodity Council (TCC) develops and implements enterprise-wide acquisition and sustainment strategies for accessory, instrument, and propulsion type items. The major stakeholders are the supply chain manager, depot maintenance, weapon system sustainment offices, and owning commands that are involved in strategy development and implementation. The propulsion commodity market is predominantly sole source or restricted sources. The accessories and instruments commodity markets consist of sole source and competitive contractors to include small businesses and organic repair sources.

The sourcing strategy for FY08 included PBL, sole source, competitive acquisitions, and partnering opportunities with organic sources. The approaches address high demand, high cost, and inadequate parts support. PBL and alternate sourcing are innovative approaches to supportability with potential reliability increases over that of sole source to the original equipment manufacturer.

The TCC has several strategies in process. The Gyro Strategy business case analysis (BCA) is near completion. The Commodity Acquisition Management Plan (CAMP) request for approval date will move out to August 2009 with anticipated award in Sep 2010. There have been delays due to contracting officer being assigned higher priority workload and two members assigned to source selection team for approximately three months. In the TF33 strategy Pratt & Whitney is willing to move ahead and is reviewing the terms and conditions of the contract. A review by senior leaders of the J85 program was conducted 2-3 Sep 08. The result of that meeting was a number of actions, including a planned visit to Air Education and Training Command (AETC), release of a request for information (RFI), and Industry Day activities. The B-1 PBL will have a formally released request for proposal (RFP) pending approval of amended acquisition documents. The Competitive Spiral had a draft RFP released on 1 Aug 08. Finally the J85 strategy is working resolution of integrated logistics management (ILM) budgeting, facilities, and procedural issues prior to release of RFP.

The sourcing strategy for TCC in FY09 includes PBL, sole source, and other partnering opportunities. Improved availability, and reduced cost, forms the basis for these approaches. New strategies will focus on supply chain optimization and source development.

#### *Air Force-wide Installation Commodity Councils*

##### *Medical Services Commodity Council (MSCC)*

The Medical Services Commodity Council (MSCC) is an ongoing strategic sourcing initiative. Within this commodity council, there are two spirals executed to provide clinical and administrative support services for Air Force medical treatment facilities. Both executed spirals



are multiple award indefinite delivery/indefinite quantity contracts. The MSCC conducted an acquisition strategy panel briefing for the medical advisory & assistance services strategy and has a draft RFP in development. Future spirals include additional temporary medical staffing & overseas clinical and medical admin support services. Centralized credential verification process in development to support temporary medical staffing healthcare providers. Extensive market research is performed on all spirals to choose most appropriate strategy. These services were previously procured through a variety of methods including DoD and non-DoD sources such as the Veterans Affairs Special Services. Veterans Affairs Special Services will stop supporting AF contracts effective May 2009. The MSCC has a transition plan in process.

The stakeholders for the MSCC include all major commands and direct reporting units. Quarterly Stakeholders' Teleconference are held to report use of existing spirals and future spiral development. MAJCOM participation has been sporadic and may continue to be problematic due to AF Medical Service realignment. Participation in quarterly teleconference now includes Air Force Medical Service (AFMS), Air Force District of Washington (AFDW) and operating locations in San Antonio, the National Capital Region/Fort Detrick and at Wright-Patterson Air Force Base.

During the 4th quarter of fiscal year 2008, 183 decentralized Spiral 1 (Clinical Support Services) task orders were issued by 23 bases for 527 health care workers, obligating \$45.63M. The total FY08 spend exceeded target by 11%, and totaled \$199 million. A total of 72% of the Spiral 1 positions were filled on time. In addition, 26 decentralized Spiral 2 (Medical Administrative Support Services (MASS)) task orders were issued by 20 bases for 44.5 MASS personnel and 1 full service, obligating \$5.18 million. FY08 spend exceeded target by 39% with a total of almost \$19 million. This spiral also had 92% of the MASS positions filled on time. The MSCC also awarded a contract on 15 August 2008 for Overseas Psychological Health Support Services. AFMS and AFDW now have authority to order traveling nurses under Army contract.

#### *Information Technology Commodity Council (ITCC)*

The Information Technology Commodity Council (ITCC) Commodity category includes, but is not limited to:

- Desktop, laptop, tablet, and rugged computers/software and high performance workstations (DLS)
- Networked printers and multifunction printers (DPI)
- Cellular and wireless handheld cellular service and devices (CSD)

SAF/XC and SAF/AQC are co-Commodity Strategy Officials; all AF MAJCOMs have a member on the Council. The commodities in this category are commercially available. A mix of large and small businesses can meet the computer and print device requirements. Small business participants are almost completely resellers (not manufacturers). The AF partnered with the Army on the cellular (CSD) procurement where Army research found no small business airtime providers.

The ITCC sourcing strategy in FY08 consisted of multiple blanket purchase agreement (BPA) awards for each commodity initiative which allow centralized program management and

competition for unit level procurement. Market research/spend analysis provided the basis for choosing the strategy. Each base/unit previously procured these commodities independently resulting in:

- Limited competition & higher prices
- Limited strategic USAF level planning
- Lack of stable configurations
- Redundant efforts performed at each base that could be performed once for all

Overall, the ITCC strategy is achieving significant cost avoidance (>\$155M since Sep 2003 for DLS) while ensuring stable, network compatible systems. CSD and DPI results are following the DLS trend. The total baseline spend for all efforts under the ITCC for FY08 is \$209.2 million. The total cost reduction from the combined strategic sourcing efforts is \$65.1 million. The DLS strategy awarded 12.7% to small businesses, which equates to \$3.9 million. Another benefit from the ITCC is the centralization of the procurement and communication functions reduces contracting and communication workload. There is also increased configuration stability and it allows for strategic planning for changes (ex: migration to Vista). In addition, there is assured compliance with the network and increased enterprise security.

ITCC has no significant changes to strategies planned for FY09. Replacement DLS BPAs will be established and there will be centralized invoicing/bill payment for cellular services. The ITCC will consider adding other commodity areas such as servers and investigate an enterprise buy desk. The strategy goals are:

- Shape AF buying behavior for selected IT commodities
- Leverage AF Buying Power over the IT Life-Cycle
- Reduce life-cycle costs
- Ensure IT infrastructure supports AF operations

#### *Force Protection Commodity Council (FPCC)*

One of the Air Force's ongoing strategic sourcing initiatives is the Force Protection Commodity Council (FPCC). The FPCC is pursuing the following Commodity Council initiatives: Standardized Load Carrying System (LCS), Law Enforcement equipment, and Deployment equipment for Security Forces (SF) Air Force-wide. The major stakeholders are MAJCOM and field units and security forces (SF) personnel: SF provided functional representatives to serve on Equipment and Weapons Configuration Board (EWCBC) to standardize SF equipment and assist with strategic sourcing. Based on market research this industry is highly competitive and has adequate socio-economic vendors.

Prior to strategic sourcing, LCS was purchased at the MAJCOM/unit level. There were duplicate buys, no leveraged buying power, and no standardization. The LCS strategic sourcing strategy uses a requirements contract with a centralized contract and decentralized purchases. The rationale for choosing this strategic sourcing strategy was based on market research, similar buys, and cost savings (economies of scale and leverage buying). The value of the LCS contract, including option years, is over \$22.1 million. The estimated cost via open market is \$29.9

million. The estimated savings from quantity discounts is \$7.8 million, or 26%. Another benefit from this strategic sourcing strategy is decreased delivery time. Historically, a large order (\$3.1M) took up to 240 days. Now large orders will be delivered in up to half the time. Also, it currently takes several months for MAJCOM/Units to process requirement and execute a contract (e.g., GSA). Delivery orders can be placed against a centralized contract within 2 weeks, which will significantly reduce procurement lead time and expedite delivery. There will also be improved capability/quality due to standardization. There will be only one version in field versus three or more.

In FY09 the FPCC plans to focus on strategically sourcing Law Enforcement equipment for personnel and vehicles. Previously, this commodity was purchased at MAJCOM/unit level, which resulted in duplicate buys, no leveraged buying power, and no standardization. The new strategy is to use an indefinite delivery type contract with a centralized contract and decentralized purchases. The rationale for choosing strategy is based on market research, similar buys, and potential cost savings (economies of scale and leverage buying).

#### *Furnishings Commodity Council (FCC)*

Another ongoing strategic sourcing initiative is the Furnishings Commodity Council (FCC). Initially, the Furnishings Commodity Council (FCC) covered office furnishings and related services for eleven Air Mobility Command bases, but in Feb 08 its scope expanded to include all continental United States (CONUS) Air Force bases, plus Alaska and Hawaii. Major stakeholders include Civil Engineering, Contracting and facility managers from each base. Each of these groups has been involved in market and commodity research to support the recommended Commodity Strategy.

The office furniture market is comprised of hundreds of suppliers. Though approximately 60% of production comes from the top five manufacturers (large businesses), there are many small manufacturers as well. Small businesses dominate the service provider sector for all office furniture-related services. Furniture spend is highly fragmented across contracts and suppliers, and most spend is through GSA contract vehicles. As a low mission-critical commodity in the “routine” commodity category, savings are most achievable through purchase/acquisition reform.

In FY 08 the sourcing strategy for Spiral 1 (Seating) is being determined, current data supports multiple award. Market research and data analysis concerning vendor capabilities and AF requirements will support the set-aside and sourcing strategy. Standardizing and limiting sources of supply will lead to savings over uncoordinated standards. The sourcing strategies for Spirals 2 and 3 have not yet been determined, but initial data supports multiple award. Market research and data analysis will expand to a CONUS requirement scope (including Alaska and Hawaii), and will be used to develop the set-aside and sourcing strategies. Spiral 2 (Case goods, Filing and Storage) will begin as staffing and resources allow.

## **NEW FISCAL YEAR 2008 STRATEGIC SOURCING INITIATIVES**

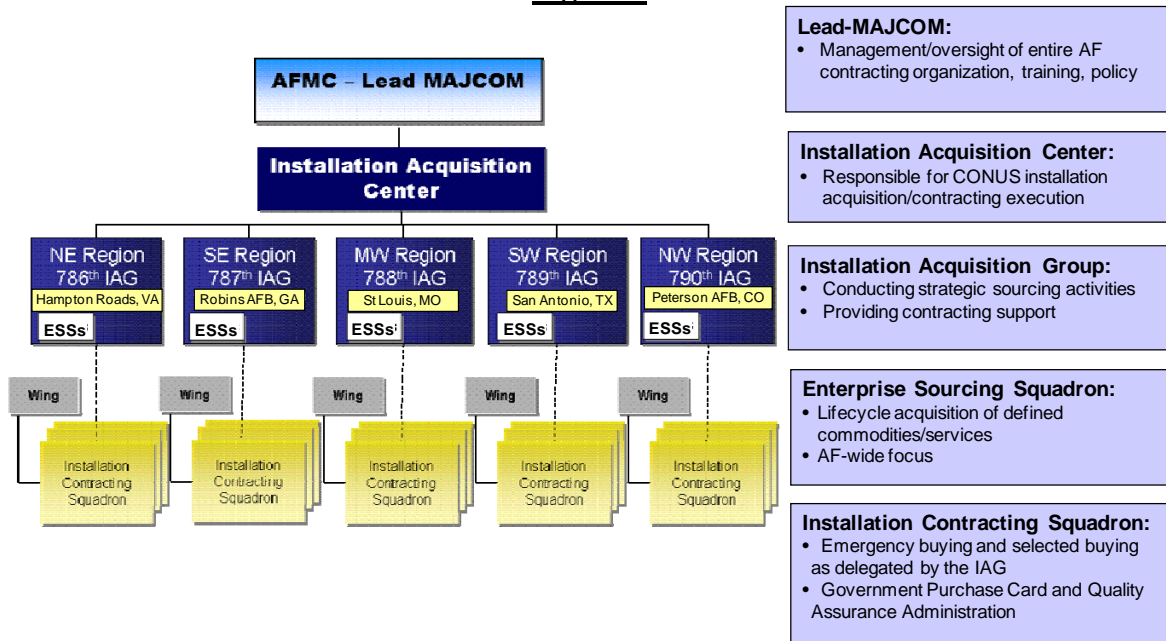
The major strategic sourcing initiative that the Air Force has been focusing on in 2008 is the implementation of the Installation Acquisition Transformation (IAT) program. The primary

rationale for IAT is that it will enable the Air Force to better use its resources and improve and increase strategic sourcing.

**Highlights of Key Initiatives**

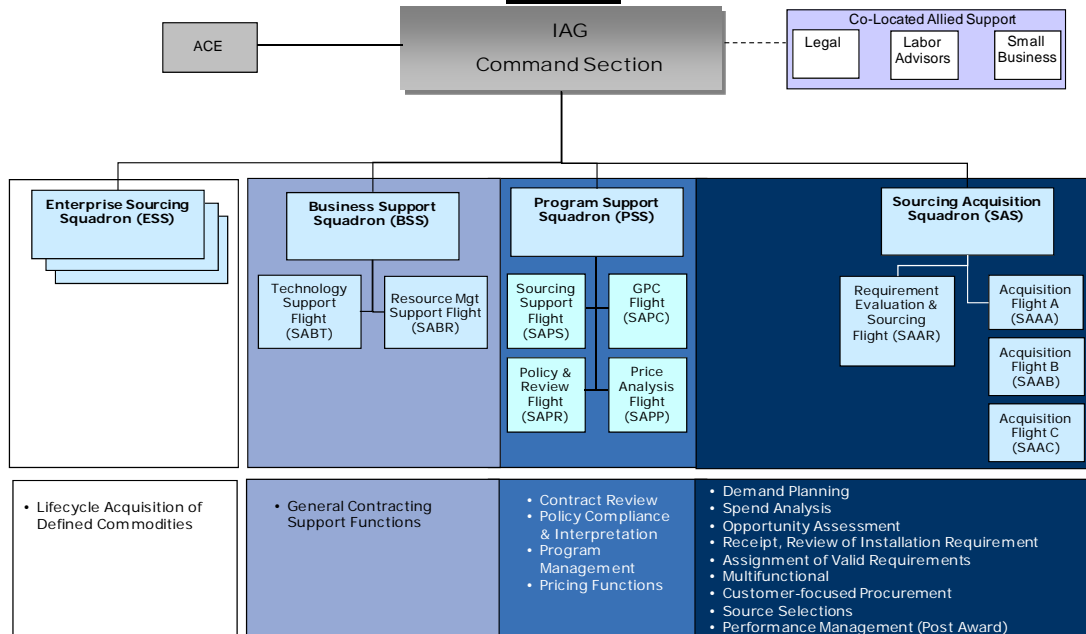
IAT transforms installation contracting from 71 tactical buying activities to 5 regionally aligned centers. This enables a better view of the requirements and reduces the duplicate effort of procuring similar requirements at several locations. The structure is illustrated below.

**Figure 1**



The majority of the buying activity will take place at the Installation Acquisition Groups (IAGs). The IAGs will be multifunctional and have collocated allied support as shown in Figure 2 below.

**Figure 2**



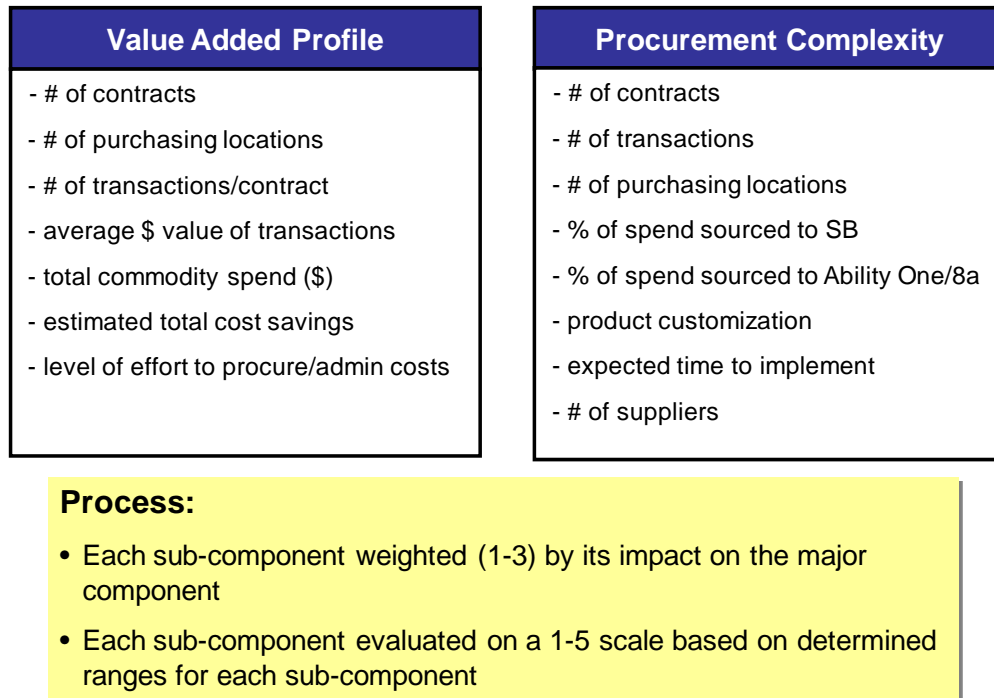
As a part of preparing for the Installation Acquisition Transformation the Air Force needs to ensure that its contracting workforce has an in depth understanding of strategic sourcing. There are several DAU online courses on strategic sourcing and spend analysis. These provide a high level overview of strategic sourcing. However, there are no courses currently available to provide teams with a deeper knowledge and practical experience of strategic sourcing. The Air Force is in process of developing a training curriculum based on the strategic sourcing model. It is designed to be just in time training for complete teams, which are about to begin the strategic sourcing process. It is classroom training broken up into three modules. The teams receive the training when they are about to begin the sourcing steps in the model.

For example, a team will go through module one as soon as they have formed the team and identified a specific commodity. Module one covers the sourcing steps through market research. Once the teams have completed their market research they will go through the module two training which covers Requirements Definition through Sourcing Strategy Development. The teams will go through module three training after they have developed their specific sourcing strategy for their commodity. During all of the modules the teams will be preparing work products that they will take with them and use as part of their strategic sourcing efforts.

As the Air Force has begun to implement IAT, each of the regions has identified leads for strategic sourcing. These leads participate in a weekly conference call and have begun to identify potential commodities that their region could source. One of the ways commodities have been identified is through a spend analysis. Specifically, a sub-team was formed to conduct a spend analysis for one of the major customers of installation procurement, Civil Engineering (CE). CE is very supportive of strategic sourcing and has stood up an Air Force Civil Engineer Strategic Sourcing Division. The team first identified the spend associated with CE and then determined a methodology for evaluating and ranking the opportunities. The evaluation model used a two by two matrix based on procurement complexity and potential value added.

Complexity and potential value add both had subcomponents, which the team evaluated using the process illustrated in Figure 3.

**Figure 3**



This effort was done in a cross-functional team with CE involvement. The end result plotted the CE purchased commodities on the matrix to allow CE to determine what they wanted to prioritize, longer term efforts with a higher value add, or shorter term efforts with a smaller value add. The team presented this analysis to CE and the next steps are for CE determine on what efforts they want to focus resources. The strategic sourcing teams will also support any new strategic sourcing efforts identified by CE. The strategic sourcing teams are working with other customers, like the Services Agency, to help them understand the value of strategic sourcing.

**LESSONS LEARNED and BEST PRACTICES**

**Lessons Learned**

As the Air Force progresses in implementing strategic sourcing there have been several lessons learned. These are communicated within the strategic sourcing community to ensure that other teams can benefit from the earlier experiences. Some of these lessons learned include:

- When evaluating technical proposals in response to solicitation, include sufficient procurement lead time due to unforeseen circumstances (e.g., Evaluation Notices, Clarifications, Discussions)
- Provide detailed past performance questionnaires to avoid the need to seek clarification from survey respondents

- Dedicated cost analyst involvement is necessary during Commodity Strategy and Profile development
- Core team member workload must be dedicated to commodity council to ensure adequate progress
- Early education of and communication with customers creates more effective buy-in and commitment of resources to the strategy and post-award sustainment
- The data does not tell all the facts, you have to talk to your customers to determine their priorities

Other issues have been highlighted during the strategic sourcing process which the Air Force is working on resolving. The Installation Acquisition Transformation should assist in developing solutions for these issues.

- Need a standard plan for post-award transition of Commodity Council (CC) contracts to include, monitoring and reporting of metrics back to the CCs. CCs are motivated to make these contracts successful in the future, but do not have the manpower to sustain all of the contracts awarded. The owning requirements IPTs, within their Groups have a tendency to return to tactical execution of these transformational contracts and are not as motivated for successful execution
- IT systems are currently not set up for transformational efforts; legacy systems do not allow for efficient measurement of metrics, and councils must rely on manual calculations

### **Best Practices**

The Air Force used several strategic sourcing enablers throughout FY 2008. These are efforts which did not directly source a commodity, but enabled the strategic sourcing process.

One of these enablers occurred on 9 Feb 07, when the Air Combat Command (ACC) Program Management Squadron and ACC Contracting Squadron combined into a single acquisition center, creating the ACC Acquisition Management Integration Center (AMIC). The unit continues to focus on integrating processes across a range of acquisitions with proven expertise and excellence in large-scale, complex services acquisitions. AMIC provides strategic acquisition facilitation and management for ACC, U.S. government agencies, and allies through integrated program management and contracting support.

The requirements range from multi-base or overseas operations and maintenance services to the purchase of specialized equipment for delivery to multiple installations. The annual spend is approximately \$375 million with total contract values exceeding \$5 billion. AMIC has demonstrated a proven capability of integrated management of large-scale services acquisitions. The AMIC is managing eight AFPEO/CM requirements, five of which were awarded in FY07 with no protests. In addition, it was an AF Nominee for the 2007 DoD David Packard Excellence in Acquisition Award. The AMIC documented \$8.6 million in program improvements against \$1.6 million in paid fees.

AMIC provides a single point control, integrated management, and a unique cradle-to-grave sustainment capability for major service acquisitions that is cost effective and responsive to the

mission. It is a first ever “center of excellence” dedicated to major service acquisition programs. AMIC is pioneering an integrated approach, which provides corporate insight/oversight, superior acquisition management, unprecedented quality assurance, and reduced total life cycle contract costs. The AMIC is primed to form a solid core for the NE Region in becoming the foundation of the 786<sup>th</sup> Installation Acquisition Group

Another best practice is from the MSCC, which enabled successful accomplishment of OCONUS Phase II Quality Assurance Process (QAP) Training through the use of Defense Connect On-Line (DCO).

The CECC recommends taking every opportunity to educate the workforce on performance based logistics (PBLs) and other Commodity Council’s initiatives. They also state that early, and upfront, involvement by the cognizant engineering office is an absolute necessity to the successful acquisition of sustainment PBLs.

The LGPVC management team has fostered open communication with the prime vendors through ongoing support and monthly feedback sessions where status and review of orders and solicitations are discussed as well as requesting suggestions to improve program

The SPCC team found a best practice to be having upper management provide strong support via Key Stakeholders’ Forum. In addition, they share lessons learned across the enterprise via weekly teleconference.

Several additional best practices were highlighted by the ITCC:

- Focus on life cycle costs/management; strategic sourcing is not just about contracts and initial buys
- Continuously involve ITCC members from each Major Command in ITCC activities/decisions
- Use support available from other agencies (e.g., OSD, NSA, DISA, OMB, EPA, GSA, and NIST)
- Include GSA and legal counsel as integral member of commodity strategy team throughout strategy development & implementation
- Weekly, and even daily, status meetings with strategic suppliers to maintain communications during strategy implementation

## **SUMMARY**

The Air Force has achieved significant results through its ongoing strategic sourcing efforts. It will continue to focus on strategic sourcing as the Installation Acquisition Transformation moves through the implementation process and begins standing up. Throughout all of the strategic sourcing efforts the Air Force has aligned with the OUSD strategic sourcing goals.



- 1) Enhance DoD Components and Other Agency Sourcing Collaboration
- 2) Foster a Culture of Strategic Decision-Making with Respect to Acquisition of Goods & Services
- 3) Leverage and Optimize Data and IT Systems to Increase Enterprise Transparency
- 4) Develop, Train, and Organize an Enterprise to Support Strategic Sourcing

The Air Force has ensured that communication is open with other services and agencies. Specifically, the Air Force is an active member of the Strategic Sourcing Directors Board at the DoD level. The Air Force also participates on the Federal Strategic Sourcing Initiatives (FSSI) team and on two of the working groups for FSSI: Education and Training and Measures and Metrics.

In regard to the second goal, the Air Force is planning to stand up a multifunctional team across the Air Force to focus on strategic sourcing. This will be an executive level team which ensures the customer requirements are understood and the importance of strategic sourcing is understood by all areas within the Air Force.

The Air Force is focused on leveraging the best IT tools to support strategic sourcing. The Air Force is actively working to roll out the AFWay II procurement system. One of the objectives in the Air Force Contracting strategic plan is to “Streamline and standardize information technology processes and capabilities.”

The Air Force is also supporting the fourth OUSD goal of developing, training and organizing an enterprise to support strategic sourcing through several initiatives. The IAT initiative focuses on implementing the appropriate organization for strategic sourcing. As a part of the IAT effort the Air Force is also developing training to ensure the workforce understands and can implement strategic sourcing.

Overall, the Air Force is committed to strategic sourcing and making it even more successful. Strategic sourcing is a key component in the Air Force Contracting strategic plan. IAT will continue to be the main, overarching initiative, with individual commodity sourcing, training and technology as focus areas within that initiative. The Air Force Acquisition vision is “Be America’s Best... War-winning Capabilities on Time, on Cost.” Strategic sourcing is one of the key ways the Air Force plans to achieve that vision.

## **SECTION 3:**

### **DEPARTMENT OF ARMY ANNUAL REPORT ON STRATEGIC SOURCING FISCAL YEAR 2008**

#### **EXECUTIVE SUMMARY**

Strategic Sourcing in the Army began between 2000 and 2003 as a series of small decentralized strategic sourcing “pilot” projects at several Army acquisition organizations. Interest and organized participation accelerated in 2004 and 2005 with Army’s involvement and leadership of the Defense-Wide Strategic Sourcing (DWSS) Wireless Commodity Team. Lessons from the DWSS experience and the early pilot projects helped convince senior federal procurement executives and Army leadership that the principles of strategic sourcing could be successfully applied within the constraints of the FAR and the Army’s procurement systems. In May 2005, the Office of Federal Procurement Policy (OFPP) (out of the Office of Management and Budget (OMB)) released a memorandum announcing the introduction of strategic sourcing as a government-wide requirement for all Federal agencies and initiated mandatory annual reporting requirements on agency strategic sourcing initiatives and cost savings.

Army strategic sourcing efforts expanded first at many of the Army’s acquisition organizations where clear “commodity expertise” is evident. Medical products, services, and research are exclusively managed and sourced through the Army Medical Command. Major weapon systems and equipment, material, and related logistics support are primarily managed and sourced through the Army Material Command. Garrison and Base operations support for Army installations is managed by the Army Installation Command (IMCOM) with procurement support provided by the Army Contracting Agency. Within this management structure, the Army is building internal strategic sourcing expertise, learning to implement strategic sourcing in the federal setting, and working to set up a foundation to further promote strategic sourcing within the Army.

In 2008, Army continued to build upon these initial successes as more and more ACOM’s initiated Strategic Sourcing efforts. Currently, the list of Army Commands that have active Strategic Sourcing teams or that have initiated Strategic Sourcing Opportunity analyses includes most of the major Army commands.

However, Army is at an inflection point in its Strategic Sourcing efforts. While the Army has developed strong expertise in identifying opportunities and leading them through the contract award, it is necessary to focus on delivering a more streamlined and holistic implementation of strategic sourcing across the Army. A more organized, systematic and collaborative approach to strategic sourcing across the Army is critical for capturing greater value from the enormous amount of dollars being spent and maximizing the use of government resources. A collective strategic sourcing program not only yields the benefits associated with a coordinated approach to the supply base for ALL Army agencies, large and small, but also reduces the amount of Army resources required to support strategic sourcing on a per commodity basis. This will allow

internal Agency strategic sourcing programs to focus on the sourcing of goods and services unique to the Agency's mission.

The remainder of this report outlines the significant successes Army Strategic Sourcing has achieved over the past year. However, it also focused on the future of Army Strategic Sourcing and what can be achieved in the years to come.

## **STATUS OF ONGOING STRATEGIC SOURCING INITIATIVES**

### IMCOM

1. Food Services
2. Environmental Services
3. Municipal Services
4. Maintenance and Repair Services
5. VTC
6. Non-Tactical Vehicles
7. Printers and Copiers

### ACSIM

1. Opportunity Analysis

### TRADOC

1. Opportunity Analysis

### FORSCOM

1. Opportunity Analysis

### Strategic Sourcing Governance

1. Governance Structure and Concept of Operations

### Army-wide Strategic Sourcing

1. Path Forward

## **IMCOM**

### **IMCOM FOOD SERVICES**

#### ***Results***

The Food Services Strategic Sourcing initiative began in October 2006, with a team led by IMCOM West, Southwest Office (formerly IMA Southwest Region). The team consisted of representatives from IMCOM Headquarters, IMCOM Region Logistics, IMCOM Region Plans, Army Contracting Agency, and Food Program Managers at the region and installation level across the Army. The team identified Contracted Food Services, including Dining Facility Attendants (DFA) and Full Food Services (FFS), as high priority sourcing items.

The team developed a Sourcing Strategy that consisted of the following recommendations:

- Improving dining facility (DFAC) utilization
- Specification standardization (contract terms, conditions and CLINS) and adherence to the HQDA prototype
- Improving durable/expendable supplies purchasing

These recommendations have been briefed and sanctioned, and implementation is underway in the West and Southeast regions. There have been anecdotal reports of savings from DFAC utilization improvements in the Southeast region; quantification of these savings has not been completed. The West region has kicked off its implementation by distributing memos describing the recommendations and actions required to be completed by the garrisons. Quarterly review and analysis of DFAC utilization data at West region installations is underway. The specification standardization and improved supplies purchasing recommendations will be implemented as contracts expire.

#### ***Total Spend***

In FY05 (the most recent completed year when the team's analysis began) the total annual spend on Contracted Food Services was \$247 million.

#### ***Cost Avoidance***

The team estimated \$6.5 - \$12.7 million (average \$9.7 million) in annual savings and cost avoidance for all three recommendations combined.

#### ***Socio-Economic Benefit***

Contracting for Food Services is governed by the Randolph-Sheppard Act and the Javits-Wagner-O'Day Act. This situation will not change as a result of this Strategic Sourcing initiative. In FY05 13 of the top 20 contracts for Food Services were with RSA or JWOD/AbilityOne contractors.

#### ***Other Benefits***

In the past, spending on Contracted Food Services was not analyzed on an enterprise-wide basis and comparisons of costs and utilization rates across installations and regions were not consistently performed. The processes that will be put in place as part of the implementation

plan should facilitate enterprise-wide analysis and improve spending management going forward.

## **IMCOM ENVIRONMENTAL SERVICES**

### ***Results***

The Environmental Services Strategic Sourcing team was launched in October of 2006. The team was led by IMCOM West, Pacific Region Office (formerly IMA Pacific Region). The team consisted of representatives from IMCOM HQ, IMCOM Region Plans, IMCOM Region Public Works, IMCOM Region Logistics, IMCOM HQ Environmental, Army Contracting Agency, Army Small Business and garrison and installation representatives from across the Army.

The team developed a Sourcing Strategy that consisted of the following recommendations:

- Optimize USACE fees
- Develop standard definitions in PWS
- Leverage IMCOM volume to increase competition and create contract reductions/efficiencies

These recommendations were briefed and sanctioned. US Army Environmental Command (USAEC) agreed to lead the implementation phase, including a pilot in Spring 2008 in which \$1.9 million of projects in Environmental Compliance, Cultural Resources, and Natural Resources were awarded using existing contract vehicles. Savings of approximately \$300,000 were achieved on the pilot projects.

The implementation team has also focused on the development of ID/IQ contracts in each of the main Environmental Services areas: Environmental Compliance, Cultural Resources, Natural Resources, and Management & Professional Services. A general Industry Day was held in January 2008, and an additional Industry Day for Cultural and Natural Resources was held in June 2008.

The Environmental Compliance Acquisition Strategy has been approved by the Small Business Administration, and the document is staffing through the Mission and Installation Contracting Command (MICC). A draft RFP for Environmental Compliance has been posted to the web for industry input, and a Pre-Proposal Conference has been scheduled for December 16, 2008. The current implementation plan is to release the Environmental Compliance RFP in January 2009, with an award anticipated by the end of April 2009.

The implementation plans for Cultural Resources and Natural Resources are expected to “track together”, trailing the Compliance acquisition by about a month. The development of the Management & Professional Services ID/IQ is being re-evaluated pending review of DoD resourcing guidelines.

### ***Total Spend***

For FY08, the total annual spend on Environmental Services was \$233 million, including both non-recurring and recurring projects, as well as USAEC spend on work done at IMCOM installations.

### ***Cost Avoidance***

Based on conservative assumptions for the proposed ramp-in of ID/IQ contract utilization, the team estimates \$5-6 million in annual savings and cost avoidance. USAEC has implemented similar leveraging strategies in the past and has realized savings.

### ***Socio-Economic Benefit***

Across all regions, approximately two thirds of Environmental Services suppliers were classified as small businesses in FY05. One of the goals of the implementation team has been to ensure opportunities for small businesses to compete at both the contract and task order level. The current draft of the Environmental Compliance Acquisition Strategy includes both a small business suite and an unrestricted suite. Companies in the small business suite will be able to compete on all task orders; companies in the unrestricted suite will be able to compete on task orders over an identified threshold.

### ***Other Benefits***

In the past, spending on Environmental Services was not analyzed on an enterprise-wide basis and comparisons of costs across installations and regions were not consistently performed. The ID/IQs and the related processes that will be put in place should facilitate enterprise-wide analysis and improve spending management going forward.

## **IMCOM ENTERPRISE ROOF LIFE CYCLE MANAGEMENT**

### ***Results***

On November 14, 2006, three recommendations regarding roofing management were approved by BG Macdonald and the IMCOM Regional Directors (RDs):

- Develop a comprehensive roof management approach designed to decrease Total Cost of Ownership (TCO) and extend roof life by improving initial roof quality and warranty coverage.
- Provide access to qualified contractors through standardized contracts.
- Implement a consistent roof assessment and tracking approach to prioritize critical roofing repair or replacement requirements.

The team has initiated implementing the recommendations by conducting a pilot test at Ft. Campbell. A roof requiring replacement was identified by Ft. Campbell and inspected by a qualified Registered Roof Consultant (RRC). Replacement specifications have been designed by the RRC in accordance with 20-year No-Dollar-Limit warranty standards. A contractor is in the process of executing the roof replacement with the newly-developed design specifications.

Building on the pilot, the team is in the process of finalizing a business case outlining the implementation of the above recommendations across IMCOM. As part of the broad

implementation, USACE will develop two sets of MATOCs for Inspection and Roof Replacement services. Using the Inspection MATOC, IMCOM is planning on inspecting the entire IMCOM CONUS roofing inventory over a five-year period, starting in FY 2009. For roof replacement, the program initially targets low-sloped roofs, which are 59% of the total IMCOM roof inventory. Based on the initial inspection results in FY 2009, IMCOM will develop a roofing replacement plan, where 5% of the low-slope inventory will be replaced annually starting in FY 2010.

### ***Total Spend***

Due to limited data tracking, the total amount of current roofing spend across IMCOM is not readily available. The implementation of the roofing strategy will result in greater transparency of roofing spend across IMCOM. Total program costs moving forward can be grouped into five general categories: inspection costs, specification development, roof replacement services, replacement oversight services and administrative costs. Start up costs in FY 2009 are estimated at \$17M. Annual costs from FY 2010 to FY 2029 are estimated to be approximately \$200M (discounting inflation).

### ***Cost Avoidance***

While inspection costs, specification development, replacement oversight services and administrative costs are all investments with the roofing program, a reduction in total lifecycle roofing cost is achieved by extending the time between roof replacements and reducing leak repairs throughout the life of the roof. The long-term impact of the roofing program is estimated to reduce IMCOM-wide roofing spend by as much as 20%.

### ***Socio Economic Benefits and/or Impacts to Small or Disadvantaged Businesses***

The contracting database captures data by type of building not by type of work performed (e.g., “Maintenance and Repair of Office Buildings” rather than “Roofing Replacement Services”). Because of this limitation, current small business usage at this level of detail (e.g., roofing inspection, roofing replacement, etc.) is not readily available. Therefore it is not clear exactly what the current small business usage is in each of these areas and IMCOM currently does not set small business goals at this low level of spend detail.

The team is working closely with members of USACE and the Small Business Office with the development of the Inspection and Roof Replacement MATOCs. It is expected that both sets of vehicles will incorporate and address small business objectives.

### ***Additional Strategic Sourcing Benefits (non-monetary)***

The systematic use of 20-year No-Dollar-Limit warranty roofs will also provide non-quantifiable financial benefits; planning and managerial benefits; and compliance benefits.

***Non-quantifiable Financial Benefits*** – the improved roofing performance (by reducing leaks) will reduce the cost of collateral damage, mold remediation, and administration associated with responding to leaks. Also, higher quality roofing materials in the 20-year No-Dollar-Limit roofing systems means higher quality insulation materials leading to improved energy savings.

**Planning and Managerial Benefits** – a reliable 20-year No-Dollar-Limit inventory of roofs will result in increased stability and predictability of future roof replacement expenses, while reducing funding reserve requirements for emergency repairs. Regional and national contracts may also decrease contracting costs.

**Compliance Benefits** – The roofing approach meets DOD Unified Facilities Criteria (UFC) standards for roofing.

### IMCOM MUNICIPAL SERVICES

**Results**

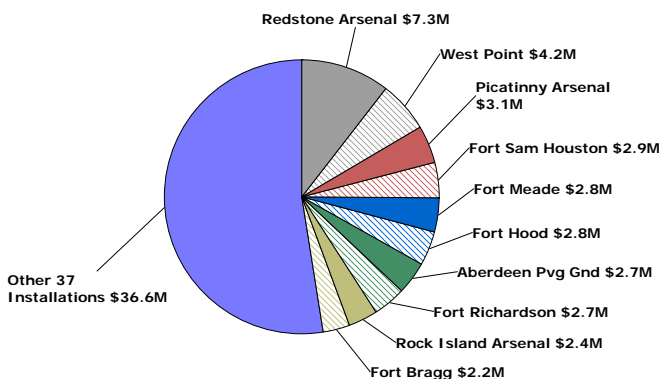
The Municipal Services initiative identified two areas of opportunity for Strategic Sourcing: Custodial Services and Refuse/Recycle Services. For Custodial Services, the Commodity Strategy recommended improvement and standardization of contract structures used for procurement, standardization of specifications, competitive bidding, improved quality assurance, contractor rationalization, and optimization of cleaning frequencies. For Refuse/Recycle Services, the recommendations revolved around optimizations of collection frequencies, development of a standard Performance Work Statement (PWS), and standardization of contracts.

The Custodial Services initiative is currently in its implementation phase. The team has developed a standard PWS package which provides specifications, optimum cleaning frequencies, and includes a Microsoft Excel-based automatic pricing management tool, originally developed and currently being used at Ft. Riley. The standard PWS package has been sent to selected installations via regional O&M Chiefs for comments. Roll out of the final package is expected to take place by end-January, 2009.

**Total Spend**

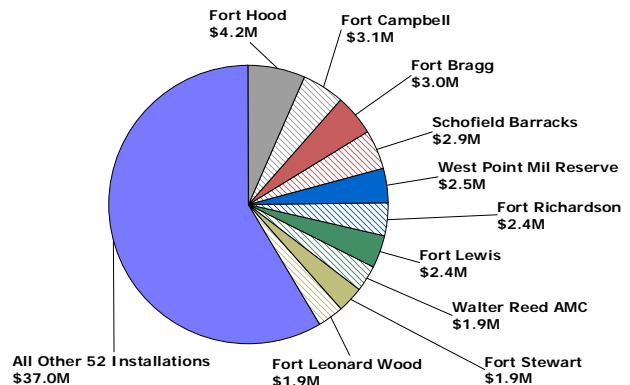
During FY 05 total Army CONUS and PARO spend on Custodial Services and Refuse/Recycle Services was estimated to be approximately \$69.7M and \$63M, respectively. A detailed breakdown of this spend is shown below.

**TOP INSTALLATIONS**  
**TOTAL CUSTODIAL SPEND = \$69.7 M (FY05)**



Source: ISR FY05 Data

**TOP INSTALLATIONS**  
**TOTAL REFUSE/RECYCLE SPEND = \$63.0M (FY05)**





### ***Cost Avoidance***

The cost savings resulting from implementing the standard PWS package for Custodial Services is \$3.4M in the first year of implementation (assuming a 50% realization rate). This is expected to be followed by further savings of \$7.5M in the next year, rising to \$9M in the 7<sup>th</sup> year. Total savings over the first 7 years of implementation would amount to approximately \$52.9M.

If implemented, the cost savings for Refuse/Recycle Services would amount to \$1.8M in the first year (assuming a 50% realization rate). In the second year the net savings are expected to be approximately \$4.3M, rising to \$5.2M. Total savings over the first 7 years of implementation would amount to \$30.5M.

### ***Socio Economic Benefits and/or Impacts to Small or Disadvantaged Businesses***

Small business and NISH spend is estimated to be over half of the overall spend for both Custodial Services and Refuse/Recycle Services. It was not possible to calculate an accurate percentage of small business spend overall.

Custodial Services currently has a large number of NISH and small business contractors. In fact, 19 of the top 20 contractors are either NISH or small business contractors. There is expected to be little, if any, negative impact on NISH or small business for custodial services from this initiative.

Refuse/Recycle Services also has a large number of small business contractors. There is expected to be a marginal impact on small business, the estimated amount of impact will be determined upon the completion of the Commodity Strategy document.

### ***Additional Strategic Sourcing Benefits (non-monetary)***

In addition to making the price proposals submitted by bidders transparent and easier to work with, the use of the Microsoft Excel-based automated price proposal system will provide an efficient tool to manage the custodial contracts post-award.

## **IMCOM VIDEO TELECONFERENCE SERVICES**

### ***Results***

The Video Teleconference (VTC) project is currently in the process of defining user and technical requirements for delivery of VTC capabilities to IMCOMs customers. To-date, the team has:

- Collected user requirements and user satisfaction levels with VTC services
- Identified the commercial best practices for implementing and managing VTC solutions
- Launched a cross-functional team to develop an IMCOM VTC strategy that aligns with the strategies of NETCOM, DISA, CIO-G6, and other Army and DoD organizations

### ***Total Spend***

Direct spend on VTC equipment is estimated to be \$15.6M in 2009.

***Cost Avoidance***

The project team is in the process of developing a Total Cost of Ownership (TCO) model for delivery of VTC services. This analysis will result in an understanding of the drivers of VTC delivery cost, and will inform the development of a VTC strategy which minimizes TCO.

***Socio Economic Benefits***

VTC products are currently provided by large vendors. The completed VTC strategy may identify small or disadvantaged businesses which are better suited to meet Army requirements.

***Additional Strategic Sourcing Benefits (non-monetary)***

In addition to TCO savings, the project will ensure IMCOM's VTC strategy better meets customer needs and requirements. This will result in high customer satisfaction and customer service levels.

**IMCOM NON-TACTICAL VEHICLES (NTVs)**

***Results***

The Army Installation Management Command (IMCOM) has undertaken an initiative to investigate the sourcing/management of Non-Tactical Vehicles (NTVs) across CONUS installations. The initial focus of this initiative is on better demand management of NTVs. IMCOM is looking to develop a standard "portfolio" of NTVs on installations based on factors such as mission, requirements, and available budget. Potential future focuses include benchmarking of lease pricing for NTVs and the development of an enterprise sourcing strategy. As the initiative has just recently begun, there are no results to report yet.

***Total Spend***

Total NTV spend across CONUS installations has not been collected yet. IMCOM spend on NTVs and related services such as maintenance was estimated to be in the \$50 million range in FY2007.

***Cost Avoidance***

As the initiative has just recently begun, there are no cost avoidance figures to report yet.

***Socio Economic Benefits and/or Impacts to Small or Disadvantaged Businesses***

As the initiative has just recently begun, there are no benefits/impacts to report yet.

***Additional Strategic Sourcing Benefits (non-monetary)***

The NTV "portfolio" can significantly help reduce the administrative burden associated with the deployment and management of NTVs across installations.

## **IMCOM COPYING & PRINTING EQUIPMENT**

### ***Results***

Following up on the recommendations of an opportunity analysis performed in early FY08, IMCOM HQ Plans and the IMCOM HQ DCIO launched a formal Commodity Team in July 2008 to develop a commodity strategy for how Copying & Printing equipment should be strategically sourced and managed across Army garrisons and installations. The Commodity Team was facilitated by sourcing experts from Censeo Consulting Group and was comprised of representatives from the IMCOM Headquarters staff (Plans & CIO), experienced copier managers and DOIM representatives from the four CONUS IMCOM regions, and Army contracting and small business representatives from the Army's Mission & Integration Contracting Center (MICC) Southeast Region office at Fort McPherson. The team followed the Army Strategic Sourcing Process and delivered a Commodity Profile (including spend and requirements analyses) and Supply Market Analysis on 3 October and will submit its final Commodity Strategy for IMCOM approval on 14 November 2008.

### ***Total Spend***

The IMCOM Commodity Team performed a spend analysis of FY07 IMCOM contract data extracted from the ACBIS database. The spend analysis identified more than \$20M in annual IMCOM contract spending for printers, copiers, multi-functional devices (MFDs), consumables and related services such as device leases and equipment repair/maintenance. Furthermore, the team estimated that IMCOM spends another \$10.7M annually for printers and printer consumables using government-issued purchase cards (P-cards) bringing the annual IMCOM spending to about \$30.7M.

### ***Cost Avoidance***

IMCOM projects that full implementation of the team's Commodity Strategy will generate an estimated future annual savings of \$8.9M (28.8%) per year.

### ***Socio Economic Benefits and/or Impacts to Small or Disadvantaged Businesses***

IMCOM's recommended sourcing strategy is not expected to significantly change the percentage of spending currently going to small or disadvantaged businesses. IMCOM intends to continue leasing and purchasing copier and MFD fleets from large business OEMs. However, major elements of the overall strategy have been purposely designed to ensure small and disadvantaged businesses continue to have opportunities to do business with the Army. The strategy recommends that the Army continue purchasing its printer consumables locally or through DoD E-mail where small businesses are well-represented and have been historically very competitive. Furthermore, the strategy recommends that all future workgroup printer equipment be purchased through the Army ADMC-2 ID/IQ contracts which are managed by the Army CHESS office. Of the nine (9) total ADMC-2 contracts, six (6) are held by small business suppliers.

### ***Additional Strategic Sourcing Benefits (non-monetary)***

A number of recommendations within the Commodity Strategy are aimed at addressing Army and IMCOM problems in the areas of copier and printer asset management, use of excess and obsolete inventories, poor demand management procedures, and implementation of non-standard equipment on Army IT networks. Implementation of the Commodity Strategy is expected to

significantly reduce the total number copying and printing devices deployed across IMCOM making management of the remaining assets easier and simpler to perform. Standardization of networked printers and MFDs, achieved by implementing “buying standards” as part of IMCOM’s enterprise contracts for MFDs and network printers, will not only improve network security and information assurance, but will help streamline procurement and ordering of equipment and consumables. It will also help reduce the number of IT help-desk calls and make it easier to train equipment users and support personnel. These “soft” savings will further contribute to lowering IMCOM’s total cost of ownership for copying and printing equipment.

### **ACSIM OPPORTUNITY ANALYSIS**

In conjunction with the Army Contracting Command (ACC), ACSIM conducted a Strategic Sourcing Opportunity Analysis to identify key target commodities for Strategic Sourcing. The Opportunity Analysis team reviewed \$5.4 billion in 2006 spend in over 100 commodities. The team also conducted over 30 interviews with stakeholders and reviewed over 121 contracts.

As a result of this effort, the team identified 3 primary commodity areas that should be addressed through Strategic Sourcing:

- ADP Services
- Furniture
- Systems Analysis and Development

In addition, the team identified two additional areas that would benefit from further research and possible coordination with other efforts:

- IT Hardware (investigate existing CHESS agreements)
- ACSIM Procurement Systems/Processes

These recommendations were presented to Dr. Craig College, Deputy Assistant Chief of Staff for Installation Management (DACSIM). These recommendations will be rolled into the existing IMCOM Strategic Sourcing effort.

### **TRADOC OPPORTUNITY ANALYSIS**

In conjunction with the Army Contracting Command (ACC), TRADOC conducted a Strategic Sourcing Opportunity Analysis to identify key targets for Strategic Sourcing. The Opportunity Analysis team reviewed \$1.8 billion in 2006 spend in over 128 commodities. The team also conducted over 25 interviews with over 100 stakeholders and reviewed over 50 contracts.

As a result of this effort, The Strategic Sourcing team identified five primary areas that would benefit from launching a strategic sourcing team. These are:

- Education Services – Primarily instructors

- Staff Support – Combination of services such as subject matter expertise, doctrine development, concept development, analysis, modeling, experimentation
- ADP and Telecommunication Services – Primarily IT support and services
- Training Aids and Devices – Variety of tools and instruments from fabricated materials to simulation systems
- Temp and Admin Services – Administrative and clerical support

In addition to the commodity areas, the team identified two areas for generating efficiencies and savings.

- Develop a method for providing a complete and accurate view of procurement spend that will facilitate price benchmarking to improve negotiated prices
- Streamline the acquisition process and establish quality measures in order to shorten procurement cycle time and improve contract management and oversight across the acquisition chain

The team presented its findings to Lieutenant General David P. Valcourt, TRADOC Deputy Commanding General / Chief Of Staff. Two commodities – Education Services and Staff Support – were selected to move forward. Sourcing teams targeted at these two commodities are expected to launch shortly.

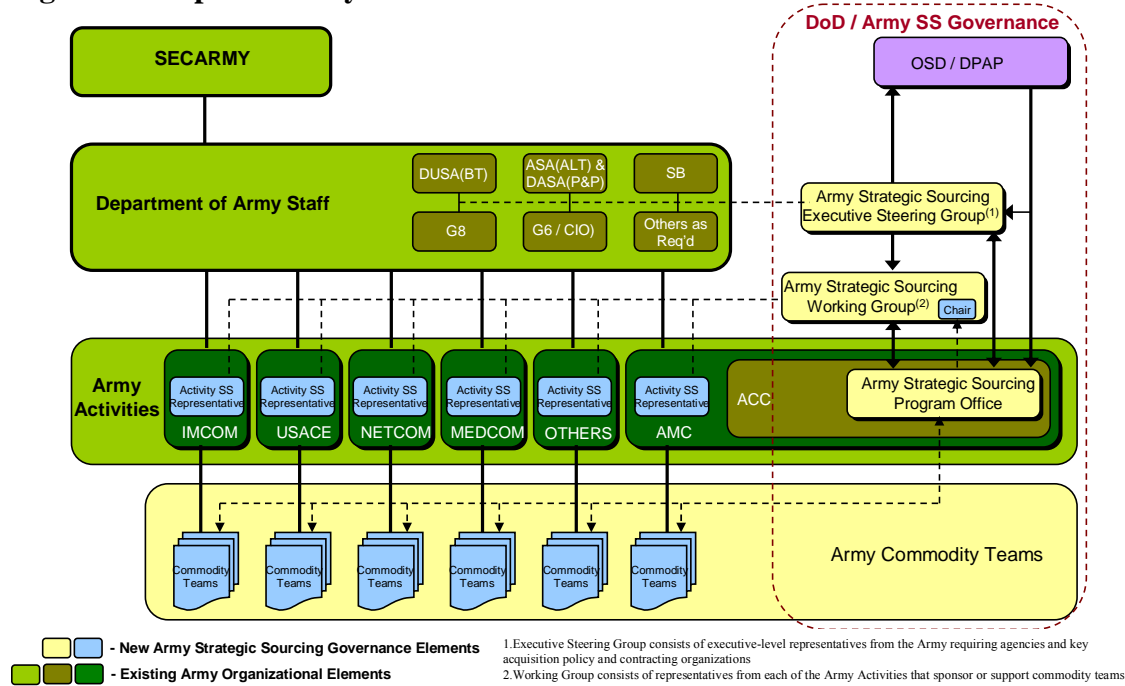
### **FORSCOM OPPORTUNITY ANALYSIS**

In conjunction with Army Contracting Command, FORSCOM is in the process of conducting a Strategic Sourcing Opportunity Analysis. The analysis will focus on identifying key commodity targets for Strategic Sourcing based on FORSCOM spend. The effort kicked off in October 2008 and will be complete by February 2009.

### **ARMY-WIDE STRATEGIC SOURCING GOVERNANCE**

In an effort to leverage and coordinate the numerous Strategic Sourcing activities already taking place throughout the Army, as well as identify and launch Army-wide Strategic Sourcing efforts, an Army-wide Strategic Sourcing Governance Structure has been proposed. The Governance Structure and Concept of Operations outline the key roles and responsibilities as well as activities necessary to coordinate efforts across Army and to maximize the full effect of Strategic Sourcing efforts.

Figure 1: Proposed Army Governance Structure



One of the most critical components of the Governance Structure is the Strategic Sourcing Program Office (SSPO). The SSPO is charged with leading and coordinating the Army’s Strategic Sourcing Program activities across all Army ACOMs and DRUs and coordinating the internal strategic sourcing activities specific to Army Materiel Command (AMC). The primary responsibilities of the SSPO are as follows:

- Provide a single focal point within the Army for coordination and reporting of Strategic Sourcing activities with other DoD agencies and OSD
  - Director of the Army’s Strategic Sourcing Program office will represent the Army at DoD’s Strategic Sourcing Director’s Board
- Serve as the Army’s single focal point for coordination of all Strategic Sourcing activities in the Army and report to higher Army and DoD leadership on the Army’s strategic sourcing performance
  - Director of the SSPO will participate as a member of, and carry out the recommendations of the Army’s Strategic Sourcing Executive Steering Group (SSESG)
- Plan and orchestrate Army-wide communication efforts that promote the sharing and awareness of strategic sourcing best practices and approved commodity strategies
- Recommend policies to SECARMY, DASA(P&P) and/or DUSA(BT) that enable and enforce the use of Strategic Sourcing best practices across Army ACOMs & DRUs
- In active collaboration with Strategic Sourcing Working Group (made up of Strategic Sourcing Representatives from the Army ACOMs & DRUs):

- Oversee or perform Army-wide opportunity analyses to identify commodities for strategic sourcing
- Recommend Army commands for leadership and ownership of multi-command, or Army-wide commodity teams that will develop and implement commodity sourcing strategies
- Coordinate recommendations for leadership of commodity teams and selection of commodities for strategic sourcing with affected Army ACOMs, DRUs and other strategic sourcing stakeholders
- The Director of the Army SSPO will collaborate with the SSWG on the selection of commodities and the designation of a “lead command” for all Army-wide and multi-command strategic sourcing efforts once those selections or recommendations have been coordinated with affected stakeholders
- Coordinate “ad hoc” working groups to address relevant issues related to enabling strategic sourcing across the Army including standards, processes, technologies and workforce development
- Review and comment on all Army-wide and command-specific commodity strategies
- Recommend and help implement annual and other periodic reporting requirements related to the Army’s strategic sourcing progress and performance
- Track and report to the SSEG and OSD the Army’s overall strategic sourcing program progress and performance as well as performance data for specific commodity teams and strategies; make recommendations for improvement
- Present to the SSEG opportunities for Army-wide adoption of best practices and/or process re-engineering efforts
- In coordination with DAU, TRADOC and OSD/DPAP, identify and/or develop Army training and education programs or courses that develop personnel with the right skills and knowledge to perform strategic sourcing (e.g., spend analysis, cost/price analysis, market analysis).
  - Effort should also include identifying where updates to existing education and training courses should be made to introduce the concept, use, and benefits of strategic sourcing to the using and supporting community (e.g. commander preparation courses, supply management training)
- Plan and budget for the resources necessary to sustain the Army SSPO and assist Army ACOMs/DRUs in developing their own budgets and resource plans in support of Army strategic sourcing efforts and programs

In addition, each of the following key components has a critical role in the running of the Governance Structure.

Strategic Sourcing Working Group (SSWG)	Commodity Teams (CT)
<ul style="list-style-type: none"> <li>• Administratively run out of the SSPO to ensure primary stakeholder viewpoints are considered in developing SSPO recommendations</li> <li>• Promote the sharing and awareness of strategic sourcing best practices and commodity strategies across the Army</li> <li>• Review the results of Army-wide Strategic Sourcing Opportunity analyses and participate in selection of commodities and lead commands for Army-wide and Multi-command strategic sourcing commodity teams</li> <li>• Review and comment on commodity strategies developed by Army commodity teams</li> <li>• Help SSPO address relevant issues related to enabling strategic sourcing across the Army including standards, processes, technologies and workforce development</li> <li>• Present to the SSPO and SSESG opportunities for Army-wide adoption of best practices and/or process re-engineering efforts</li> </ul>	<ul style="list-style-type: none"> <li>• Operate under the cognizance of a lead-command, but may have participants from multiple commands with procurement interests</li> <li>• Develop individual commodity strategies                             <ul style="list-style-type: none"> <li>• Perform detailed spend analyses</li> <li>• Perform market analyses</li> <li>• Develop acquisition strategies (if req'd)</li> </ul> </li> <li>• Manage implementation of individual commodity strategies</li> <li>• Track &amp; report to the SSPO and SSESG on the performance of individual commodity strategies</li> </ul>
<ul style="list-style-type: none"> <li>• Review and approve commodity and lead command recommendations for Army-wide strategic sourcing efforts</li> <li>• Review and approve Multi-command and Army-wide commodity sourcing strategies</li> </ul>	<ul style="list-style-type: none"> <li>• Chair and facilitate the operation of the Army-wide Strategic Sourcing Working Group (SSWG)</li> <li>• Review &amp; coordinate on Army commodity strategies</li> <li>• Plan and execute Army-wide communication efforts</li> </ul>

In addition to the Governance Structure, the Concept of Operations and proposed Staffing plan outline specific processes and resources necessary to coordinate sourcing across the Army.

### ARMY-WIDE STRATEGIC SOURCING PATH FORWARD

The Army path forward for Strategic Sourcing includes a number of key steps to continue the great work that has been completed to date. As outlined above, the basic infrastructure for Army-wide Strategic Sourcing will first need to be established followed by a coordinated effort to bring the various efforts together. The following describes the basic way ahead for Army Strategic Sourcing:

1. Stand up Governance Structure – the Governance Structure and Concept of Operations will need to be approved and stood up to establish the building blocks for Army-wide Strategic Sourcing. It will be critical to involve the various stakeholders and groups that have begun or would like to begin strategic Sourcing efforts
2. Involve DUSA-BT as a key stakeholder – to drive Army-wide change, it will be important to engage DUSA-BT in the Strategic Sourcing efforts. In preliminary discussions, DUSA-BT has expressed interest in involvement with the effort.
3. Consolidate existing Opportunity Analyses – it will be important to leverage the existing efforts from the various ACOMs in order to provide a more complete picture of Army



spend and opportunities. The data from various Opportunity Analyses as well as existing efforts will need to be consolidated and evaluated.

4. Conduct Army-wide spend analysis to fill in gaps – in order to fill in the data not captured in previous efforts, an Army-wide spend analysis will need to be conducted. This will provide the most complete picture of the Strategic sourcing opportunities within the Army.
5. Identify Categories based on DPAP portfolio structure – using the Army-wide spend analysis, a high level spend categorization will be completed using the current DPAP portfolio structure as a guide.
6. Identify target commodity teams/Centers of Excellence within each Categories for Strategic Sourcing – finally, commodity teams and Centers of Excellence will be identified for Army-wide and ACOM Strategic Sourcing efforts.

## **SUMMARY**

The Department of the Army achieved much success in the area of Strategic Sourcing in FY 08. The strategic sourcing initiatives ranged across a variety of products and services with participation from most of the ACOMs. As provided in this report, Army initiated four new strategic sourcing initiative in FY 08 and conducted a number of Opportunity Analyses that will ultimately lead to additional initiatives. Each initiative is expected to produce significant future cost savings and cost avoidance.

Each strategic sourcing initiative has resulted in lessons learned and best practices that can be leveraged with each new project. Applying these lessons learned and best practices have all ready proven to create efficiencies and better results across each commodity team. Simple practices like getting the stakeholders involved at the start of the project can have a tremendous impact on the project outcome and overall team experience.

However, one of the most important lessons learned that Army can build upon in FY 09 and into the future, is the importance of coordinating efforts across the Army. The structure and processes that have been proposed and will shortly be implemented will provide a more efficient and effective sourcing process for the Army and ultimately yield even greater results than we have achieved over the past 5 years of sourcing efforts.

**SECTION 4:**

**DEPARTMENT OF NAVY  
ANNUAL REPORT ON STRATEGIC SOURCING  
FISCAL YEAR 2008**

**EXECUTIVE SUMMARY**

The Department of the Navy (DON) continues to successfully achieve and meet its strategic sourcing objectives and goals through ongoing strategic sourcing initiatives. Within the past fiscal year, the DON has continued to meet socio-economic goals, achieved savings & cost avoidance, and improved visibility into Department-wide services spend. Through various strategic sourcing initiatives, the DON has streamlined & standardized acquisition business processes that have enhanced value and mission effectiveness.

This annual report provides an update of the ongoing Strategic Sourcing initiatives led by the Navy and Marine Corps as well as an overview of new initiatives undertaken during FY 08, including a DON-wide IT commodity council led by the Office of the Deputy Assistant Secretary of the Navy (DASN) for Acquisition and Logistics Management (A&LM).

The DASN (A&LM) Office continues to provide the oversight for strategic sourcing efforts in the Navy. Within the Marine Corps, strategic sourcing efforts are led by the Marine Corps Business Enterprise Office (HQMC/LR) in partnership with the Marine Corps Contracts Division (HQMC/LB). In concert, DON requirements generators and acquisition program managers have been applying strategic sourcing principles with an eye to improving support to the war fighters, often affecting non-procurement processes and improving management of the requirements. With the focus on improving support to Operating Forces, the DON Strategic Sourcing goals are to:

- Establish enterprise-wide cross-functional acquisition strategies
- Reduce Total Cost of Ownership for acquired goods and services
- Improve the Department's ability to meet socio-economic goals
- Streamline and standardize acquisition business processes
- Improve the skills of DON acquisition community
- Increase visibility of strategic sourcing initiatives within the DON

## STATUS OF ONGOING STRATEGIC SOURCING INITIATIVES

### NAVY

1. NAVY OFFICE SUPPLIES
2. NAVY-LED DOD-WIDE CLERICAL SERVICES
3. NAVY FURNITURE BLANKET PURCHASE AGREEMENTS
4. NAVY FLEET AND INDUSTRIAL SUPPLY CENTER SAN DIEGO - LED LOGISTICS SERVICES INITIATIVE
5. NAVY MARITIME COATINGS

### UNITED STATES MARINE CORPS

1. UNITED STATES MARINE CORPS SUPPLY STUDY
2. UNITED STATES MARINE CORPS INFORMATION TECHNOLOGY COMMODITY TEAM SUB TEAM ON MULTIFUNCTIONAL DEVICES
3. UNITED STATES MARINE CORPS INFORMATION TECHNOLOGY COMMODITY TEAM - PERIPHERALS

## NAVY

### NAVY OFFICE SUPPLIES

**Results:** Since the Navy Office Supply Sourcing Strategy was adopted as Department of Navy policy in 2006, the DON has exceeded the initiative goals for capturing detailed spend data, supporting socio-economic program spend, and achieving savings. The use of the DOD EMALL as the primary point of entry for shopping for office supplies has had a direct impact in expanding the use of the DOD EMALL by DON customers and forcing shoppers to compare pricing from multiple sources or use existing competitively awarded vehicles. Consistent use of the competed Navy IDIQ contracts hosted on the DOD EMALL has resulted in cost avoidance in excess of 20% of the Federal Supply Schedule pricing. Based on an estimate of 10% cost avoidance when shopping competitively awarded vehicles or through direct price competition, the DON has avoided \$5.4M based on the FY 08 DON Office Supply spend.

The DON's Office Supply strategy primarily directed shopping with vendors on the DOD EMALL. With over three hundred office supply vendors however, item searches could be difficult and pricing comparisons were not always conducted with similar items. As participating members on the Federal Strategic Sourcing Initiative (FSSI) Office Supply Commodity Team, the DON was authorized to use the FSSI Office Supply BPAs. Through

issuance of implementing guidance on 1 February 2008, the DON adopted the FSSI BPAs as part of a suite of office supply vehicles available for use on the DOD EMALL's Navy Corridor. By focusing the DON office supply spend through a small group of 12 FSSI BPAs and a small number of legacy Navy office supply contracts, the DON is forcing vendors to compete more directly for orders.

**Total Spend:** Since the DON Office Supply Policy directed shopping through the DOD EMALL as the primary method for addressing office supply requirements, DON usage of the DOD EMALL has risen from less than 4000 actions/ \$800,000 per month in April 2006 to more than 40,000 actions/\$11.9M in September 2008. During FY 08, DON office supply purchases alone totaled \$54.0M through the DOD EMALL, averaging over 21,000 actions per month. The channeling of this volume of actions to a controlled vendor population will provide an opportunity to leverage pricing and achieve some standardization in future adjustments to the sourcing strategy.

**Cost Avoidance:** Cost avoidance has also been achieved by reducing the proliferation of new DON office supply purchase orders and contracts that were the normal sourcing approach before April 2006 and the issuance of the DON policy. By eliminating the need to award local contracts and by promoting decentralized ordering through the DOD EMALL, DON contracting officers and administrators are freed to focus on other projects.

**Socio Economic Benefits and/or Impacts to Small or Disadvantaged Businesses:** The DON carefully monitors DOD EMALL sales and tracks the volume of business going to small businesses. The DON consistently achieves results, when shopping among the DOD EMALL vendors, which exceed 71% of dollars and 66% of actions going to small businesses.

**Additional Strategic Sourcing Benefits (non-monetary):** Use of the DOD EMALL tool gives insight into the buying behaviors at the activity and cardholder levels and allows a reviewer to quickly observe purchases being made from sources outside the Navy corridor. This leakage dilutes the DON's cost avoidance success and may reflect ignorance on part of the purchase cardholders, or familiarity and comfort with a particular vendor. However, based on the level of detail provided in the DOD EMALL reports, cardholders have been contacted personally in direct outreach efforts to curb leakage. The level of spend detail available through the DOD EMALL reports will also support development of the material master list for the Navy Enterprise Resource Planning (ERP) system which will further allow standardization when purchasing common consumable office supply items.

## NAVY-LED DOD-WIDE CLERICAL SERVICES

**Results:** The Clerical Services initiative was to improve visibility into Department-wide clerical services spend and provide a streamlined and standardized acquisition business process, improve support of socio-economic goals, and achieve cost avoidance. The clerical services contracts have met all of the goals and objectives set forth above.

The cost savings resulting from the use of the contracts is \$3.15M to date (about 10.9%). Currently, the Clerical Support contracts address Clerical Services in three metropolitan areas, Norfolk, VA; Philadelphia, PA; and Washington, DC/Baltimore, MD. As of 14 Oct 2008, the Contracting Office for the existing contracts has received the “go ahead” from Naval Supply Systems Command to “go nationwide” with Clerical Support. The nationwide initiative will require that a new set of multiple award contracts be awarded, but the lessons learned from the three region “pilot testing” will be useful in enlarging the scope of the Clerical Support effort.

**Total Spend:** During the first year of operation (01 Nov 2006 – 31 Oct 2007), usage of the DWSS Clerical Support contracts and portal amounted to \$3.7M in task order value with seven task orders having been issued. During the second year of operations (through 20 Oct 2008), usage of the contracts amounted to \$25.2M in task order value with six task orders having been issued.

**Cost Avoidance:** The cost savings resulting from the use of the contracts is \$3.15M to date (about 10.9%).

**Socio Economic Benefits and/or Impacts to Small or Disadvantaged Businesses:** As called for by the Commodity Strategy developed in FY 05, a number of Multiple Award (MA) Indefinite Delivery and Indefinite Quantity (IDIQ) contracts (9) were awarded to 8(a), HUBZONE and Service Disabled Veteran Owned Small Businesses. In addition, an automated Ordering Portal was stood up for use by DOD Ordering Officers. The Portal allows distributed ordering of clerical services from the underlying MA contracts.

**Additional Strategic Sourcing Benefits (non-monetary):** The use of the automated ordering portal provides for “on demand” seamless use by the widely dispersed base of Ordering Officers.

## NAVY FURNITURE BLANKET PURCHASE AGREEMENTS

**Results:** The Navy Furniture Initiative resulted in the award of 74 blanket purchase agreements (BPAs), including Federal Prison Industries (UNICOR), with varying levels of discounts from the Federal Supply Schedule pricing. On average, the discounts from schedules will result in an immediate 1% cost avoidance and additional reductions during the competitive acquisitions for specific orders.

Improving business practices, Naval Supply Systems Command (NAVSUP) letter of 8 Nov 07 granted permanent contracting authority to Naval Facilities Engineering Command (NAVFAC) for office, dorm and quarters furniture, fixtures and equipment (FF&E) under the Navy multiple award BPAs. This change has eliminated NAVFAC from requesting separate delegations for each major construction purchase. In addition, NAVSUP's policy letter 08-45 of 12 Aug 2008, enclosed detailed instructions when ordering under the Navy's Furniture BPAs and serves as a tool for satisfying the competition requirements under the BPAs and for giving proper consideration for use of the Federal Prison Industries, a mandatory sources of supply.

**Total Spend:** Data information provided by GSA indicates the total amount awarded through the 3rd Quarter was \$5.1M. (4th quarter information is not yet available).

**Cost Avoidance:** Based on the conservative estimate of 1% cost avoidance on purchases against the BPAs since award, the Navy has enjoyed cost avoidance of at least \$51,000 as of July 31<sup>st</sup> based on \$5.1M in total purchases under the BPAs. However, ordering is decentralized and is competed at the activity level. As a result, the additional discounts realized through competition among the BPA vendors cannot be readily captured.

**Socio Economic Benefits and/or Impacts to Small or Disadvantaged Businesses:** Of the total value of all BPA awards \$5.1M, \$1.6M or 31.84% represents sales to small business BPA vendors for FY 08.

**Additional Strategic Sourcing Benefits (non-monetary):** Benefits received to date include centralizing buying within a limited population of vendors, where initial price reductions from Federal Supply Schedule pricing have already been obtained. In coordination with GSA, the Navy is able to capture detailed spend information, visibility of items purchased, patterns of sales, and buying behaviors that will enable the Navy to standardize future furniture acquisitions and streamline future acquisition processes. One pattern already emerging is the high number of incidental purchases for chairs and other routine office furnishings that could be standardized.

### **NAVY FLEET AND INDUSTRIAL SUPPLY CENTER SAN DIEGO - LED LOGISTICS SERVICES INITIATIVE**

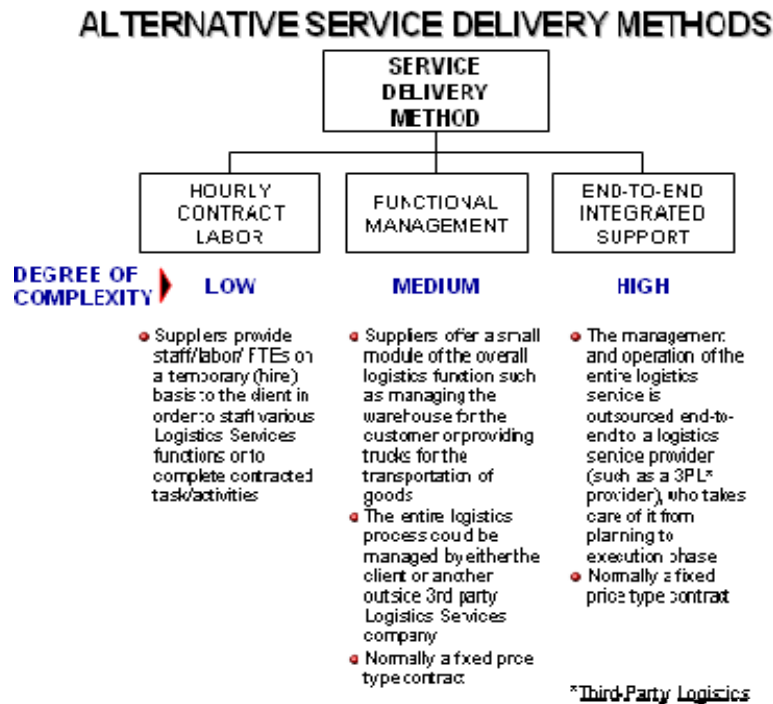
**Results:** The Commander, Fleet and Industrial Supply Centers (COMFISCS) Enterprise San Diego led this initiative, partnering extensively with Censeo Consulting. This effort resulted in the formation of COMFISCS Logistics Services Commodity Team, comprised of Customer and COMFISCS/NAVSUP stakeholders. The Logistics Services effort continued into the new fiscal year, with Commodity Profile, Supply Market Analysis and Commodity Strategy final deliverables completed in January 2008. At that time, the business case and proposed cost-savings data were provided. The scope of the initiative:

- **Storage and Handling:** Management and execution of physical activities and systems to store and handle an item. For example, receiving and taking custody of an item, warehousing, loading and unloading ships/containers/vehicles, etc.
- **Analysis and Support:** End-to-end supply function/logistics analysis for service/quality optimization purposes or to create new strategies. Also includes FTEs provided to fill general supply function roles or to support completion/processing of transactions
- **Transportation:** Physical movement of cargo from point A to B, including planning, coordinating, and managing said activities
- **Logistics Services** include activities which involve sustainment and maintenance of the operating forces...“those aspects of Navy operations that plan for and deal with storage, movement, distribution, maintenance, evacuation and disposition of material”. Logistics services are best defined by the sub-categories they cover.

A potential savings net of investments ranging from \$10.45M to \$19.29M over a six-year period was predicted. This was predicated based on the use of specified Change Management activities to raise awareness of contract vehicle(s) and to communicate its benefits.

**Commodity Strategic Sourcing Process:** In FY 08, COMFISCS’s Logistics Services Commodity team continued to execute the Navy’s Strategic Sourcing Process. The steps were as follows:

- **Opportunity Analysis:** This was a review of spend and other internal criteria to determine suitable strategic sourcing opportunities. At this stage, the team determined that there was significant opportunity to strategically source Logistics Services.
- **Step 1 - Spend Analysis:** As previously noted, FISC San Diego led the effort in analyzing all COMFISCS Fiscal Year 2006 procurement data. This process or “spend analysis” revealed that Federal Supply Code (FSC) R706 was the number one area of spend for the organization. However, since last year’s reported numbers, an update to the final results of the spend analysis has been made as shown in the Total Spend section below.
- **Step 2 – Market Analysis:** The commodity profile and market analysis findings clearly indicated the need to address multiple service delivery methods as part of the commodity sourcing approach. An overview of alternative delivery methods of Logistics Services are provided in the chart below:



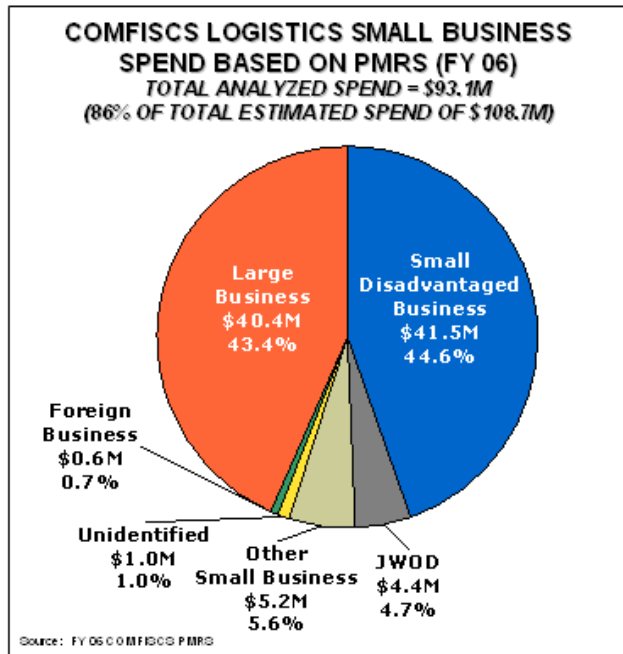
**Figure 1. Overview of Logistics Service Delivery Methods**

A primary component of Logistics Services is its delivery methods, which range from simple contract labor to the more complex full logistics outsourcing. NAVSUP and COMFISCS Enterprise identified three different service delivery methods as evident in Figure 1. These three methods are:

- Hourly Contract Labor
- Functional Management
- End-to-End Integrated Support (Full Outsourcing)

Do note that as a result of a team decision, the End-To-End Integrated Support delivery method was not for consideration for this effort.

The market for Logistics Services is mature and competitive as shown in the chart below. Findings revealed many Small Businesses are capable and competitive. In fact, within COMFISCS, small business accounts for 50.2% or \$46.7M of the \$93.1M in Logistics Services spend. Small business capabilities will continue to be leveraged as part of the Commodity Strategy.



**Figure 2. COMFISCS Logistics Services Small Business View**

- Step 3 - Commodity Strategy: Since the submission of last year’s OMB Strategic Sourcing report, the proposed sourcing or Commodity Strategy deliverable was completed. This strategy’s business case supported moving forward on the Logistics Services effort. Additionally, it provided estimated cost savings to be realized once the Logistics Services solution is implemented. The following findings and “way ahead” determinations from the strategy are provided:
  - Conduct a competitive Request for Information (RFI)/Request for Proposal (RFP) process to establish a multiple award contract vehicle, which combines both



Hourly Contract Labor and Functional Management requirements. Salient features and expected outcomes include:

- A mandated vehicle for all CONUS COMFISCS contracting offices
  - A potential savings net of investments ranging from \$10.45M to \$19.29M over a six-year period. This is predicated on the use of specified Change Management activities to raise awareness of contract vehicle(s) and to communicate its benefits
  - A group of suppliers or awardees capable of providing one (or both) of Hourly Contract Labor and Functional Management services
  - A procurement solution which has on-going task order level competition as part of the ordering process
  - An ability for customers to determine the most appropriate delivery method (i.e. Hourly Contract Labor or Functional Management) as part of the ordering process
- Determine the number of appropriate contract vehicles for a competitive End-to-End Integrated Support vehicle
    - A determination was made that this delivery method should be a separate and distinct vehicle. Given its complexity, it may or may not be a multiple award contract vehicle
    - Program Executive Officer (PEO) Interviews are on-going to assist in this determination
  - Step 4 - Issue RFx and Negotiate: Using a Statement of Objectives (SOO) and RFI Questionnaire, FISC San Diego, FISC Norfolk and NAVSUP will re-engage its top customers and then engage industry. This will be accomplished during the late 2008/early 2009 timeframe. The goal is to use information provided from industry in response to the SOO and RFI, for the Government's drafting of a Statement of Work (SOW).
  - Step 5 - Implement and Manage Performance: the COMFISCS Commodity Team has not yet reached this step of the strategic sourcing process, which is expected in FY 09.

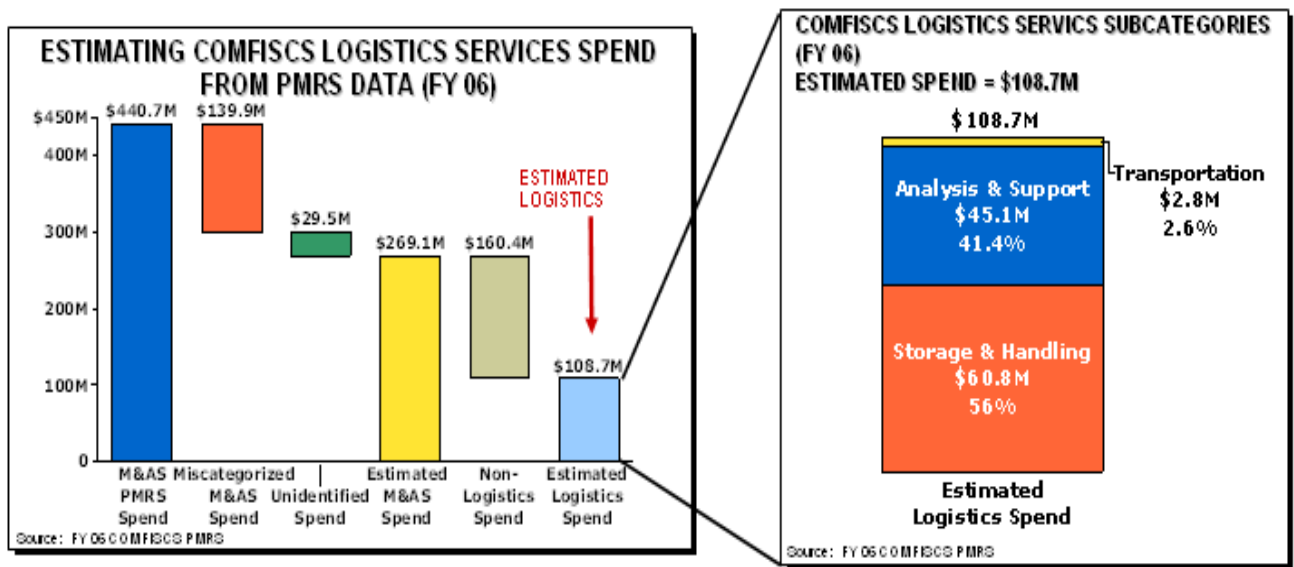
The COMFISCS Commodity Team evaluated and approved a strategy for using Multiple Award Contracts as an enterprise-wide vehicle for Logistics Services

- Currently there isn't a single "enterprise-wide" vehicle for procuring Logistics Services. For example, FISC San Diego, which has \$46.9M (of the \$108.7M) of Logistics Services spend, is currently dominated by one vendor. A significant portion of awards (via task orders) are not competed. Numerous contract vehicles and sources exist for fulfilling requirements. Pricing variability is also high across Logistics Services Labor Categories.
- Therefore, the opportunity exists for customers to obtain better pricing (on task orders) through competition among vendors if Multiple Award Contracts are in place for Logistics Services.

- Metrics: Since the team has not yet completed Step 5 of the strategic sourcing process, metrics have not yet been established. However, the team has determined that performance standards and metrics for Logistics Services have been inconsistently applied. The sourcing or Commodity Strategy deliverable incorporated this finding. Therefore, within the structure of the resulting solution or contract vehicle(s), the use of Performance Based Logistics standards would be appropriate.

**Total Spend:** Total COMFISCS Logistics FY 06 spend, excluding FISCS Yokosuka and Sigonella, was \$108.7M<sup>6</sup>.

As mentioned above, Logistics Services spend is represented by three sub-categories: (1) Storage and Handling, (2) Analysis and Support, and (3) Transportation. The spend for these sub-categories are listed in Figure 3 below:



**Figure 3. Spend Per Logistics Services Sub-Category**

As depicted above in Figure 3, of the \$108.7M in COMFISCS Logistics Services, the sub-categories of Storage and Handling and Analysis and Support account for most of that spend. This finding, despite the update in the final spend analysis, is consistent with what was reported in last year’s FY 07 reported data.

**Socio Economic Benefits and/or Impacts to Small or Disadvantaged Businesses:** For FY 06, the COMFISCS small business participation average was 49.5%. Small business participation for Logistics Services represented 50.2% of the COMFISCS average.

<sup>6</sup>This \$108.7M in Logistics Spend was an addendum provided after completion of the COMFISCS Commodity Profile, which initially indicated there was \$64.4M in Logistics spend.

## NAVY MARITIME COATINGS

**Results:** The Fleet Industrial Supply Center, Norfolk (FISCN), with support from Naval Sea Systems Command - Fleet Logistics Support (NAVSEA04L), began a strategic sourcing initiative on Maritime Coatings during June FY 07. Although the project initially investigated strategic sourcing opportunities in paints, applicators, sealants, and adhesives used on Navy ships, the scope of the strategy ultimately focused on paints. The Commodity Team has completed the strategy development phase of the strategic sourcing process and is currently in Request for Proposal (RFP) development and implementation.

The Maritime Coatings Strategic Sourcing analysis concluded that the expansion and update of Just In Time (JIT) delivery of Maritime Coatings at the four major Naval Shipyards (Norfolk, Puget Sound, Portsmouth, and Pearl Harbor) would result in significant material cost avoidance and a decrease in required contracting, quality assurance, inventory, and material management resources. The initiative has reached the implementation phase of the strategic sourcing process and a team of cross-Shipyard and cross-functional personnel has been assembled. This team will write a solicitation and design a consistent JIT process across the four shipyards. As of October 2008, the team has identified best practices for JIT Coatings delivery, drafted a Statement of Work for the solicitation, and developed a list of Coatings used across all Navy Shipyards.

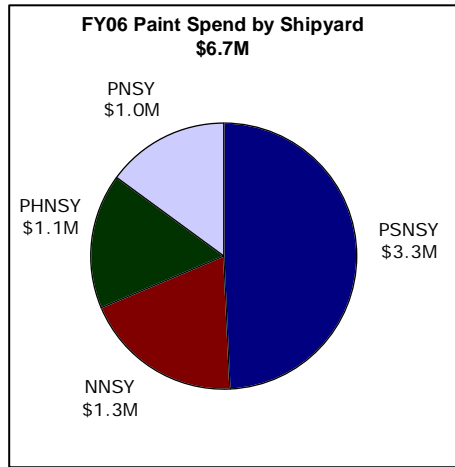
Implementation of the strategy is still in progress so there are no current results to provide. However, this response will focus on expected results. The implementation of JIT delivery of Coatings to each of the Shipyards is predicted to achieve \$2.7M in material cost avoidance over the next 5 years. Cost avoidance will be achieved through reduction in per unit price, demand reduction, and decreased hazardous material disposal costs.

In addition to cost avoidance, JIT delivery of Maritime Coatings is expected to increase the availability of material to the Shipyards. Under JIT, normal delivery is expected within 72 hours of order placement (24 hours expedited) while the current process requires contracting, manufacturing, and shipping time, which typically takes up to two months.

In addition to the quantitative benefits of the Strategic Sourcing effort for Maritime Coatings, the initiative is also anticipated to result in indirect savings achieved through overall operational efficiency. A few of the categories of qualitative improvements will include:

- Labor productivity gains: fewer inspections, less material movement, less contract execution
- Consistent material quality: fewer failed inspections, as evidenced by the programs at NNSY and PSNSY
- Supplier management: additional investment in research to advance the quality and technology of supplier products because of guaranteed volume and long-term agreements
- Environmental benefits: reduction of hazardous material waste (Maritime Coatings are predominantly composed of copper and oil) decreasing the amount of toxins introduced to the environment

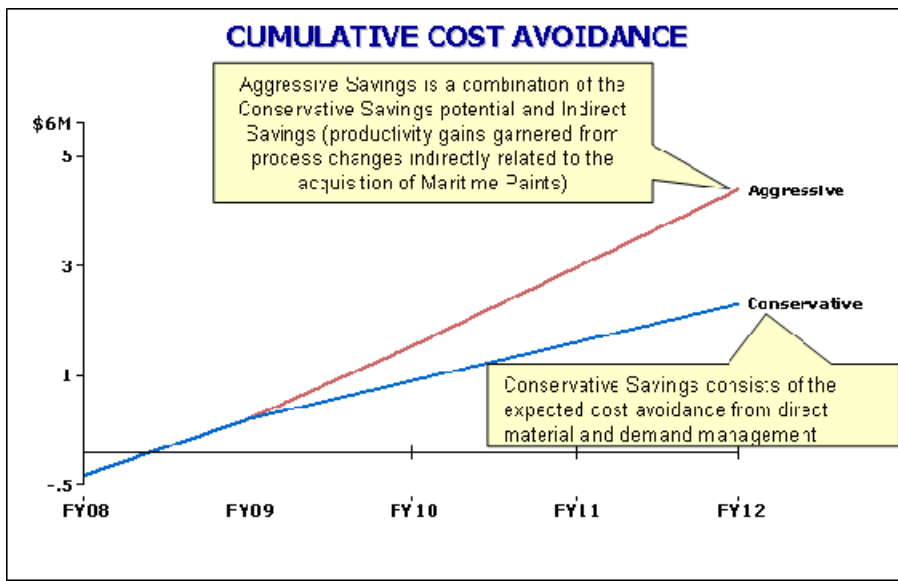
**Total Spend:** Extensive spend analysis was conducted on the Maritime Coatings FY 06 spend. After elimination of adhesives, sealants and applicators due to the nature of the products and potential negative impact on small business, \$6.7M of total Maritime Coatings remained. The FY 06 Naval Shipyard commodity spend was as follows:



**Figure 4. Paint Spend by Shipyard**

**Cost Avoidance:** The implementation of the sourcing strategy is expected to result in cost avoidance, with an expected range of \$1.8M to \$4.2M, over the next five years.

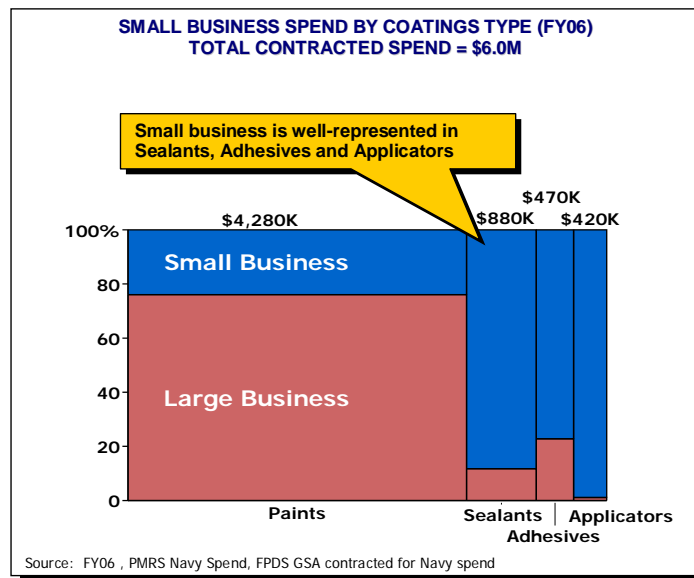
The chart below shows the potential cost avoidance under aggressive and conservative scenarios. The conservative scenario assumes a volume discount calculated based on results from past pooling efforts, as well as savings generated from the avoidance of over-purchasing of material. The aggressive scenario assumes indirect savings from productivity gains such as decreased expedited shipping, less disposal, and the reallocation of labor required to service current contracts.



**Figure 5. Maritime Coatings Cost Avoidance**

**Socio Economic Benefits and/or Impacts to Small or Disadvantaged Businesses:** The Maritime Coatings spend is split between four major product subcategories: paint, sealants, adhesives, and applicators. Small businesses have a significant portion of Maritime Coatings commodity spend (43%). The Maritime Coatings strategy will preserve or improve small business spend in two ways:

1. Small business predominately exists in the sealants, adhesives and applicators subcategories. To preserve small business spend across the Coatings category, the focus of the strategy is only on the Paints subcategory, where small business has significantly less presence. Small business concentration across these the Coatings subcategories is demonstrated in the figure below:



**Figure 6. Maritime Coatings Small Business Spend by Coating Type**

2. While the sourcing strategy will leverage buying power from the larger commodity suppliers in the Paints subcategory, it will also retain and develop a conglomerate of small business providers. Many small businesses hold exclusive market share for certain niche products within the commodity category. This exclusive provider status is maintained by allowing Shipyards only to purchase off of a limited qualified product list. Through working with primary vendors, small business presence will be maintained by requiring subcontracting of these niche products by the primary vendors.

**Additional Strategic Sourcing Benefits:** The implementation of the Maritime Coatings JIT strategy will result in many non-monetary benefits, including those listed in the table below:

#	Improvement	Details	Benefits
1	Reduced inventory	<ul style="list-style-type: none"> <li>In JIT, material is stored at the vendor, but is accessible to the Navy; It is not paid for until received by the shipyard</li> </ul>	<ul style="list-style-type: none"> <li>Capital not tied up in Coatings Inventory</li> <li>Less holding costs/ Inventory management labor</li> </ul>
2	Reduced inspection backlog	<ul style="list-style-type: none"> <li>Because larger batches are inspected up-front, multiple batches do not pile up at QA when needed</li> </ul>	<ul style="list-style-type: none"> <li>Fewer batches means fewer overall inspections/ lab tests</li> <li>Less need for expedited inspections</li> </ul>
3	Reduced waste and disposal	<ul style="list-style-type: none"> <li>Because only needed Coatings are sent to the shipyard, less extra Coatings are purchased</li> </ul>	<ul style="list-style-type: none"> <li>Less Hazmat disposal</li> </ul>
4	Reduced contracting backlog	<ul style="list-style-type: none"> <li>The contracting portion of the acquisition process is upfront, and only one contract is competed during the contract period</li> </ul>	<ul style="list-style-type: none"> <li>Reduced administrative overhead</li> <li>Fewer immediate-need contracts, allowing better-negotiated terms</li> </ul>
5	Increased material availability	<ul style="list-style-type: none"> <li>Material is delivered and available to the end user 24-72 hours after order placed</li> </ul>	<ul style="list-style-type: none"> <li>Decreased lead time</li> <li>More flexibility in planning</li> </ul>

**Figure 7. Maritime Coatings Non-Monetary Strategic Sourcing Benefits**

**Lessons Learned/Best Practices:** There is strong overlap of Strategic Sourcing and Lean Sigma methodologies: Strategic Sourcing efforts frequently result in strategies that update acquisition processes, not simply contractual processes. In working with Naval Sea Systems Command – Industrial Operations (NAVSEA04X), we have seen that the analysis included in the Strategic Sourcing process mirrors that of the Lean Sigma process. The use of Lean releases and cooperation with the Lean office has increased the ease of implementation, as accountability is established within the Lean Sigma release processes.

Change Management and communications are vital to the success of Strategic Sourcing initiatives with a diverse set of stakeholders: The Maritime Coatings commodity affects many stakeholders, including Contracting, Receiving, Quality Assurance, Engineering, End Users, Environmental, Technical Warrant Holders, and National Policy Makers across four Shipyards and NAVSEA Headquarters. As is the case with any commodity having multiple stakeholders, each individual and organization has their own interests and concerns. It is important to include these stakeholders throughout the initiative in order to ensure their priorities are recognized by the Commodity Team and taken into account in the development of the final strategy. This inclusion increases the effectiveness of the solution and the likelihood that the solution will be accepted by all stakeholders across the enterprise.

**Summary:** The Maritime Coatings Strategic Sourcing initiative is in the final stages. A cross-functional, cross-Shipyards team has been formed to lead the creation of a Statement of Work, develop the scope of included Paints list, as well as implement the JIT process at each of the four Shipyards.

NAVSEA leadership, NAVSUP leadership, and the four Shipyards Commanders have been briefed on the progress of the team and have given their support to move forward with implementation.

The ultimate success and benefit of this project is driven by the ability of the Shipyards to work together in developing a solution to meet all their requirements. This solution is based on the realization that their requirements are ultimately very similar and there is an opportunity for the Navy (and likely other branches of DoD) to purchase cooperatively. This ensures commonality of material, maximizes Navy buying power, and helps focus vendor relationship efforts.

## **UNITED STATES MARINE CORPS**

### **UNITED STATES MARINE CORPS SUPPLY STUDY**

**Tangible Results:** This strategic sourcing effort is led by our Logistic Policy Division of Headquarters, Marine Corps (HQMC/LP). The scope of the effort covers the entire Marine Corps Garrison Retail Supply System (GRSS). The stakeholders include the full range of Marine Corps units and tenants who draw supplies via GRSS.

An analysis of spend revealed a \$100.0M annual requirement with about \$70.0M provided by bricks and mortar GRSS stores which were scattered over 11 bases and stations. The remainder of the requirement was acquired on the local market via purchase card (\$20.0M) or via DOD EMALL (\$10.0M) (i.e., an internet purchase). GRSS was highly fragmented. The supply chain was not integrated. Each base and station had a different GRSS solution to provide routine supplies needed to support Marine Corps operations. Information technology of 1970's vintage was still used for local GRSS business operations. There was no modern enterprise-wide GRSS information technology in use and there was no plan to upgrade, integrate or replace the existing GRSS information technology.

Market research was part of an independent study of the best method of managing the existing Marine Corps stores on an enterprise-wide basis. The study revealed that a public/private venture was possible. Partnering with or duplicating another agency's model was also reviewed. In the context of supporting our Marines, the study focus included: (1) cost of operations per dollar of sales, (2) ability to leverage our enterprise-wide purchasing power, and (3) a strong desire to continue supporting the socio-economic goals (small business, AbilityOne, etc) of the Department of Defense.

The recommendation was to establish an enterprise-wide fourth party logistics (4PL) provider model which could meet or exceed Marine Corps requirements at current cost or less. On 26 October 2007, GSA and the Marine Corps signed a Memorandum of Agreement (MOA) that committed GSA and the Marine Corps to a Garrison Retail Supply Chain (GRSC) partnership thus implementing a 4PL model.



## Goal: Free-up USMC Resources



Cost and Responsibility Matrix	Marine Corps Management Model	4PL Model		
		USMC	GSA	Vendor
Capital Expenditure	☑		☑	☑
Buildings	☑	☑		
Hardware	☑		☑	
Software	☑		☑	
Services	☑		☑	☑
Security	☑	☑		☑
Contracting	☑		☑	
Variable Costs	☑		☑	☑
Cost of Goods	☑		☑	☑
Utilities	☑	☑		
Phone	☑		☑	☑
Internet	☑		☑	☑
Consumables	☑		☑	☑
Inventory	☑		☑	☑
Labor	☑	☑	☑	☑

**Figure 8. 4PL Model Matrix**

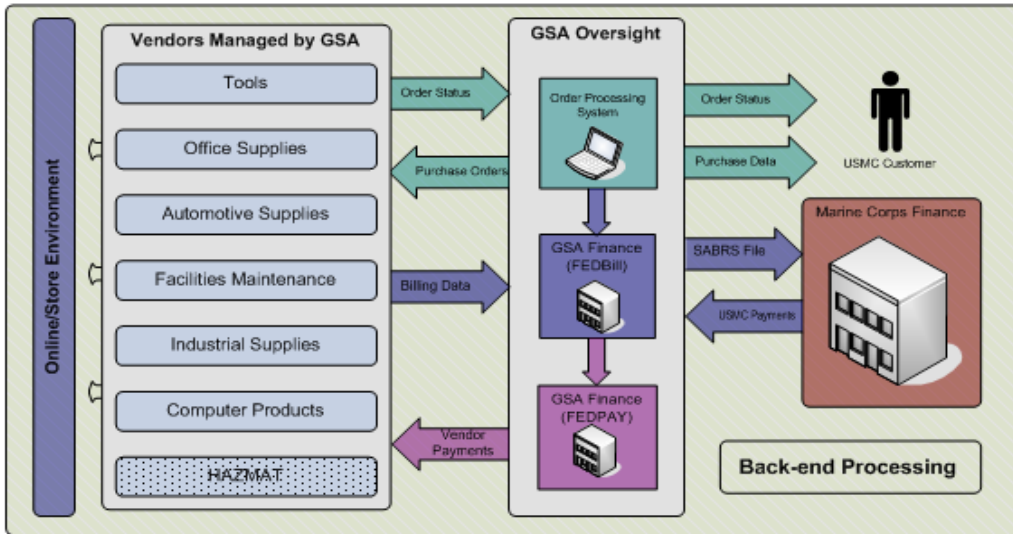
The GRSC partnership provides an enterprise-wide solution for the Marine Corps and leverages GSA focus on acquisition expertise and purchasing power for supplies that are not unique to the Marine Corps or the Defense Department. GRSC provides a single point of accountability and quick access to a wider and customizable range of goods. GRSC increases visibility of Marine Corps purchases and increases visibility of any characteristics of our buys that inadvertently drive up costs.

To date, the Marine Corps began implementation of its first two store upgrades with six additional stores by mid year. An additional three stores with Ability One considerations are currently being planned. Benefits of the conversions continue to expand as we leverage GSA supply chain expertise, utilize existing GSA and developing IT systems, capture demand for better management. Sales in the first few months of operation represent costs 15% below GSA schedule prices. In the future we are looking to expand current GSA support to improve in Theater support.





# GRSC Model

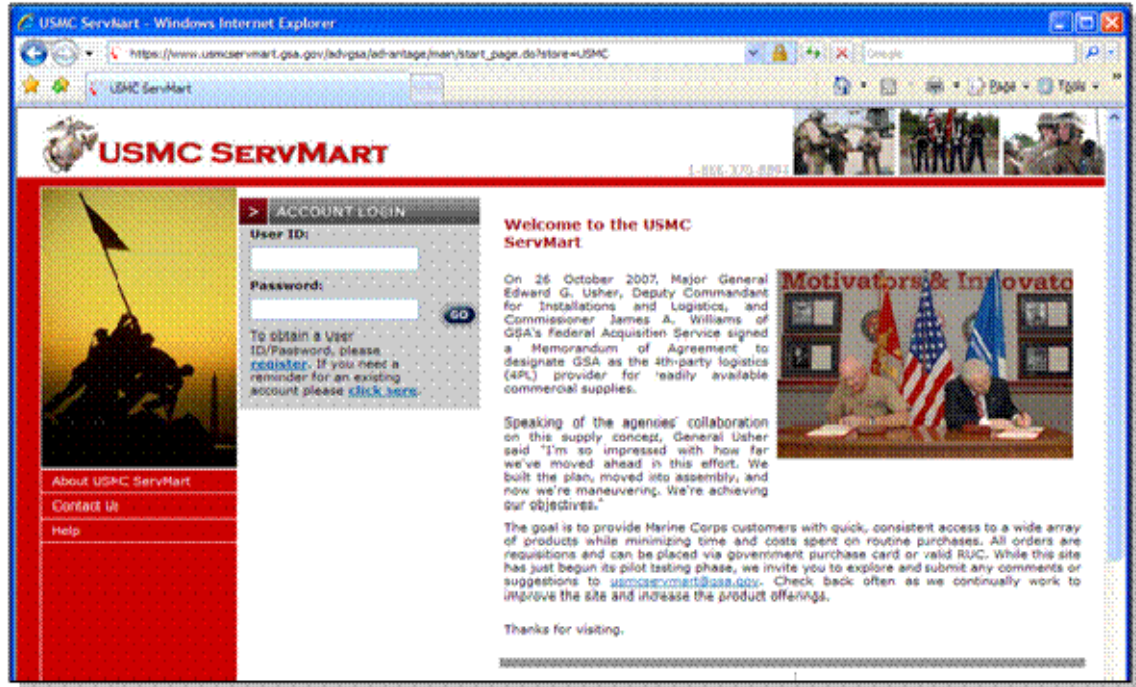


**Figure 9. Garrison Retail Supply Chain**

On 10 November 2007, the USMC launched the Virtual ServMart as part of the 4PL effort. The Virtual ServMart reduced travel to the site of a brick and mortar ServMart as well as the need for trips off base for supplies. The Virtual ServMart is particularly valuable to smaller sites that are not close to a major base such as recruiters and other support staff across the country. Now these vital users are able to utilize the preferred pricing and delivery available under the GRSC model.



# USMC Virtual Servmart Launched



**Figure 10. USMC Virtual ServMart**

In only a few months, sales have grown rapidly using the Virtual ServMart.

Activities	Sales
CAMP LEJEUNE, NC	\$253,776.61
29 PALMS, CA	\$223,990.91
QUANTICO, VA (Since Aug 08)	\$88,646.46
MCAS IWAKUNI	\$50,134.92
NEW ORLEANS, LA	\$29,267.32
CAMP PENDLETON, CA	\$17,735.66
RIVERTON, UT	\$7,533.55
PERRYSBURG, OH	\$7,380.74
ALBANY, GA	\$6,020.55
BALTIMORE, MD	\$4,700.34

## UNITED STATES MARINE CORPS INFORMATION TECHNOLOGY COMMODITY TEAM (IT CT) SUB TEAM ON MULTIFUNCTIONAL DEVICES

Multifunctional Devices (MFDs) are devices that perform more than one function that was traditionally performed by digital copiers, scanners, and/or printers. Devices that are intended for connection to the Navy-Marine Corps Internet system (NMCI) must be rigorously tested for NMCI compatibility and for security. The choice of MFDs that NMCI will provide is limited. The NMCI contract can provide MFDs, however, NMCI is really optimized to provide a cost effective enterprise-wide network with associated workstations rather than MFDs. Strategy implementation began in FY 08.

**Total Spend:** A rudimentary spend analysis revealed an aggregate MFD and copier requirement of approximately \$20.0M. This requirement included equipment installation, consumable supplies other than paper, and repair/maintenance services. The testing and certification requirements posed a significant barrier to connecting scanners, printers or MFDs to the NMCI network. The spend was highly fragmented with an excessive reliance on single function machines.

**Cost Avoidance:** In the National Capital Region the Marine Corps achieved a 60% cost avoidance for black and white machines and 51% for color machines based on unit cost (old contract) versus unit cost (new Document Automation & Production Service (DAPS) contract). This represented a cost avoidance of \$1.0M in FY 08 alone. The Marine Corps also achieved increased functionality and reliability of equipment as outdated equipment was replaced. DAPS provided significant permanent relief to the organic Marine Corps Contracting staff and legal counsel that can now focus their energies on other requirements that more closely support the war fighter.

**Additional Strategic Sourcing Benefits:** The Document Automation and Production Service (DAPS) is part of the Defense Logistic Agency and has had recent experience with NMCI certification for a Navy client. DAPS has the sophistication to recognize devices that are cosmetically different but that are internally identical and thus would not need retesting by NMCI.

DAPS had good testimonials from its customers including a Marine Corps unit in Japan and seemed an ideal partner to implement the MFD strategy sourcing solution. In April 2007, the strategic sourcing decision was made to partner with DAPS.

DAPS provides usage data and analysis of our copier requirement that was not previously available. The analysis should allow further reductions in cost, increases in functionality and increases in customer satisfaction. Additional devices continue to be certified/approved for use on NMCI which will further enhance competition, lower costs and improve performance.

## UNITED STATES MARINE CORPS INFORMATION TECHNOLOGY COMMODITY TEAM – PERIPHERALS

**Results:** In summer 2007, the IT CT selected the use of DOD EMALL to reduce transaction costs and capture spend data. By the end of FY 07, guidance on DOD EMALL use for peripherals was ready to release and was subsequently released in FY 08. Routine evaluation of those contract vehicles as well as the consideration of new contract vehicles coming on line, to include the GRSC contract capability, remains a strategy to continuously improve future procurement efforts.

Expected results are \$3.3 - \$5.2M in savings over 5 years. The use of DOD EMALL to acquire IT Peripherals has made ordering easy while achieving competitive pricing.

**Total Spend:** IT Peripheral spend is estimated to be \$50.0M annually.

**Socio Economic Benefits and/or Impacts to Small or Disadvantaged Businesses:** Over half of DOD EMALL vendors are small businesses and are easy to identify in search results.

**Additional Strategic Sourcing Benefits:** The use of DOD EMALL for the acquisition of IT Peripherals offers many advantages over other traditional purchasing methods:

DOD EMALL ADVANTAGES
<ul style="list-style-type: none"><li>• <b>Large Selection and Product Availability:</b> DOD EMALL consists of 1300+ catalogs of over 21 million items, which includes a high percentage of IT Peripherals</li><li>• <b>Pre-Qualified Vendors:</b> All vendors on DOD EMALL are federally "approved" vendors</li><li>• <b>User-Friendly Features:</b> DOD EMALL results can easily be sorted to display prices in ascending order</li><li>• <b>Socio-Economic Advantages:</b> Over half of DOD EMALL vendors are small businesses, and small business and JWOD vendors are clearly identified on DOD EMALL item search results, making it easy to purchase from these vendors</li><li>• <b>Updated Pricing:</b> Vendors can update pricing and SKU's as often as needed, resulting in accurate and updated pricing and products</li><li>• <b>Reporting:</b> Canned and ad-hoc reports can be generated to show a variety of detailed information</li></ul>

Figure 11. Advantages of DOD EMALL

## NEW FISCAL YEAR 2008 STRATEGIC SOURCING INITIATIVES

### NAVY

1. NAVAL INVENTORY CONTROL POINT MECHANICSBURG SUPPORTED NAVY AUDIO-VISUAL PRODUCTS INITIATIVE
2. NAVY FLEET AND INDUSTRIAL SUPPLY CENTER – LED MAINTENANCE, REPAIR, AND OPERATIONS (MRO) INITIATIVE
3. DEPARTMENT OF NAVY IT HARDWARE EQUIPMENT COMMODITY TEAM

### UNITED STATES MARINE CORPS

1. UNITED STATES MARINE CORPS SUPPLY STUDY – HAZMAT
2. UNITED STATES MARINE CORPS INFORMATION TECHNOLOGY COMMODITY TEAM (IT CT) – IT SERVICES

### NAVY

#### **NAVAL INVENTORY CONTROL POINT MECHANICSBURG SUPPORTED NAVY AUDIO-VISUAL PRODUCTS INITIATIVE**

**Strategy Used For This Initiative:** This initiative is being championed by the Space and Naval Warfare Systems Command (SPAWAR) Umbrella Contracts Program with Naval Inventory Control Point (NAVICP) providing contracting support. A suite of multiple-award IDIQ's is envisioned covering commercially available non-production products, particularly those included in video-teleconference systems. We have expanded our Enterprise Software Initiative (ESI) coverage to 57 publishers and IT-related service providers since last year (up from the 30 mentioned last year). We purchased enterprise licenses for the Navy-selected Lean Six Sigma products of choice: iGrafx, Minitab, and Powersteering.

Additionally, we have begun work on consolidating the numerous orders for maintenance of commonly used software into centrally-funded enterprise buys. These actions would include maintaining non-NMCI software as well as provide the framework for maintaining NMCI software in the Next Generation Enterprise Networks (NGEN) era. Eight publishers have been targeted thus far: Microsoft, Symantec, Adobe, Sun, Red Hat, IBM, Network Appliances, and Cisco. Navy already purchases Oracle maintenance in this manner. Asset management personnel have learned that, for example, the Navy spends about \$170.0M per year on Cisco maintenance, \$40.0M per year on Network Appliances, \$127.0M per year on IBM, \$10.0M per year on Red Hat, and many more millions on Microsoft and Adobe. Buying as a true enterprise

is expected to reduce these amounts substantially, although actual amounts are yet to be determined.

In addition, we began efforts in coordination with SPAWAR Umbrella Contracts Program and NETWARCOM to establish a Navy-wide contract for audio-visual products. Results of this effort would be to reduce cycle times for procurements, invoke Navy standards in equipment utilized, and obtain savings in procurement dollars.

**Stakeholders That Will Benefit From This Initiative:** The resultant contracts will be available for use by all Navy components.

**Cost avoidance:** Will be measured by the percentage of savings achieved from GSA Schedule or list prices.

**Socio Economic Goals, Benefits Expected, and/or Impacts to Small or Disadvantaged Businesses:** Small businesses will be included in the source selection decision.

**Additional Benefits to be Derived From the Strategy (non-monetary):** Resultant vehicles will invoke Navy standard specifications and architectures to improve communications and facilitate ease of use.

### **NAVY FLEET AND INDUSTRIAL SUPPLY CENTER-LED MAINTENANCE, REPAIR AND OPERATIONS (MRO) INITIATIVE**

**Commodity Category Description:** In an effort to provide the Naval Facilities Engineering Command, Southwest (NAVFAC-SW) an improved acquisition solution to meet their Maintenance, Repair and Operations (MRO) needs, FISC San Diego collaborated with NAVFAC-SW to pull and analyze historical MRO purchase data for the Region, review current MRO purchasing processes, determine industry standards, trends and offerings via market research, structure a requirement based on findings, and recommend an acquisition strategy that provides the best business benefit for the Region. In December 2007 and in April 2008, FISC San Diego provided a view of a draft acquisition strategy and completed a high-level Market Analysis based on an industry capabilities study. This information was provided to senior management of the FISC San Diego and NAVFAC SW organizations.

The overall goal was to leverage the acquisition and strategic sourcing expertise of FISC San Diego to structure/award a new and improved MRO acquisition solution for the NAVFAC SW Region. FISC San Diego was to take the lead in determining if the current ordering process could be improved for better procurement efficiency for MRO products. The objective of the Material Support Action Team (MSAT) was to make recommendations for improved procurement practices in this commodity area.

**Material Support Action Team:** The mission of the MSAT is to develop a comprehensive strategy and POAM for the transition from the current MRO Prime Vendor to a new logistic

support contract that services the entire NAVFAC SW Region. The team has been focused on material support issues including, but not limited to:

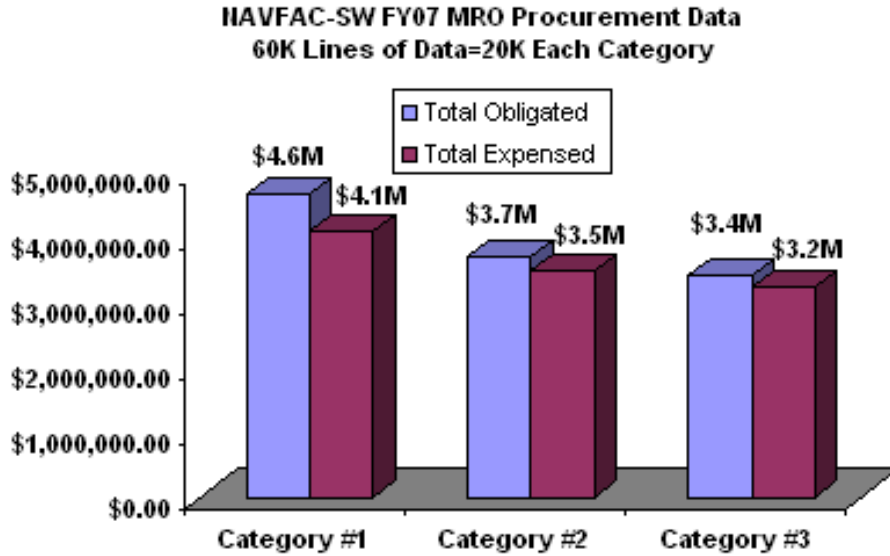
- Supplies and services needed
- Statement of Work (SOW)/Scope
- Contract Terms and conditions
- Performance metric establishment

The team focused on MRO spend through the NAVFAC Southwest Region. The analysis of this historical data, along with market analysis findings, were to help outline an innovative approach for providing logistics support for MRO requirements of NAVFAC-SW customers.

Maintenance, Repair and Operations (MRO) requirements, also referred to as “facility maintenance, repair and operations” are focused logistics support requirements for “materials and services that do not go directly into the end product, but are used to maintain, repair or operate machinery and processes.” “MRO items include everything from replacement parts for machinery to safety products for workers and cleaning products for the physical plant.” MRO items fall into two categories (1) “just-in-time” inventory and (2) “just-in-case” inventory.

**Strategy Used For This Initiative:** Commodity Strategic Sourcing Process: The Team is leveraging and executing Navy strategic sourcing principles to develop an MRO contract acquisition strategy. These strategic sourcing steps include:

- Opportunity Analysis: The NAVFAC-SW Region identified the MRO commodity as an acquisition opportunity prior to the start of the initiative. In fact, NAVFAC-SW currently has an MRO contract. Therefore, the Team conceded that an opportunity existed to strategically source a new MRO acquisition solution.
- Step 1 - Spend Analysis: The Team began analyzing Fiscal Year 2007 MRO procurement data. FISC San Diego took the lead on this effort to understand the spend history of the NAVFAC-SW customer. The process and findings (at a very “high-level”) are documented below:
  - Received access to 100K lines of data
  - Data was imported into Excel for analysis
  - 60K lines (or 60%) of data was reviewed and placed into three categories of 20K each, comparing:
    - Total Obligated
    - Customer Total Received (or Expensed)



**Figure 12. MRO Procurement Data**

- The 60K lines of data resulted in 31,974 Purchase Orders
  - The average amount of each order was \$368.24
- 92% of dollars obligated were expensed
- The following items were identified based on “high-spend” amounts:
  - Heating/Ventilating/Air Conditioning Equipment (filters, v-belts, motors)
  - Electrical Hardware & Supplies (lamps, ballasts, conduit, wire, cable, tape, batteries)
  - Plumbing Fixtures & Accessories (pipe, couplings, adapters, fittings, flush valves, faucets)
  - Paint Supplies, Paint/Varnishes (brushes, rollers, pans, drop cloths, tape)
- Step 2 - Market Analysis: In late January 2008, FISC San Diego executed a fact-finding mission to obtain industry capability information based on customer need. An informal Request for Information (RFI) was distributed to several vendors in the MRO industry. These vendors were targeted based on:
  - Spend analysis findings
  - Customer requirements

Five vendors responded, answering key capability questions asked in the RFI. Key capability information obtained revealed:

- Vendors can support a Southwest Region and even a Navy-wide customer



- Vendors offer a web-based solution that would allow for online ordering, real-time product availability information, and order/delivery status
  - Vendors can deliver items within 24-48 hours
  - Half of the vendors could provide onsite support (i.e. a base store)
  - Vendors have performance measures in place for tracking on-time delivery, fill-rate, socioeconomic status, etc.
- Step 3 - Commodity Strategy: A proposed MRO acquisition strategy was outlined by FISC San Diego and presented to the Team. The proposed strategy suggested that a new contract structure was needed. Primary elements of the strategy recommended:
- A Firm Fixed Price (FFP) Supply, Indefinite Delivery, Indefinite Quantity (IDIQ)
  - Multiple awardees
  - An ordering method using the Government Commercial Purchase Card (GCPC)
  - A Base Plus Options type contract
  - A dual solution— (1) an online catalog buying approach or Virtual MRO Supply Store and (2) an onsite store for convenience (offering only “must have on-hand” type items)
    - Online ordering would be preferred, the customer can see “real” inventory (availability, price, etc.)
    - Customer concerns regarding inability to know stock levels and item fulfillment times would be addressed.
- Step 4 - Issue RFX and Negotiate: The Team has not yet reached this step of the strategic sourcing process.
- Step 5 - Implement and Manage Performance: The Team has not yet reached this step of the strategic sourcing process.

**Stakeholders That Will Benefit From This Initiative:** The team is evaluating the use of Multiple Award Contracts as a NAVFAC-SW Region MRO solution. This solution would provide the flexibility of ordering online and receiving contractor delivered items, as well as the ability to obtain “must have now” items from an onsite store. The proposed solution is meant to give customers visibility into the availability of MRO supplies, delivery, and order status/tracking. These are essential requirements. By identifying the top MRO items ordered in high quantities, favorable discounts on price for these items can be negotiated. Finally, leveraging the latest technology in online ordering will eliminate the number of onsite stores currently available. This is a business process re-engineering recommendation anticipated to be an immediate cost savings.

**Total Spend Data:** FY 07 total expensed amount was \$10.8M

**Metrics That Will Be Monitored in Order to Demonstrate the Performance of This Initiative:**

The team has not yet established metrics for this initiative as it has not yet reached the step (Step 5) of the strategic sourcing process where metrics are established. However, the Team did identify Key Performance Indicators (KPIs) for consideration (i.e. on-time delivery, item availability, back-order status, etc.)

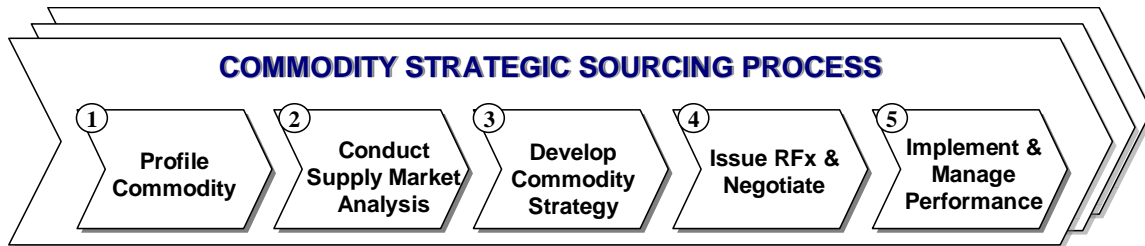
**Socio Economic Goals, Benefits Expected, and/or Impacts to Small or Disadvantaged Businesses:**

The NAVFAC-SW current MRO Prime Vendor is a large business. Therefore, the FY 07 MRO data analyzed was not small business procurement data. Given the information obtained during the high-level Market Analysis, there is small business representation in the MRO market.

**DEPARTMENT OF NAVY IT HARDWARE EQUIPMENT COMMODITY TEAM**

**Commodity Category Description:** The Assistant Secretary of the Navy – Research, Development and Acquisition (ASN (RDA)) and Department of the Navy – Chief Information Officer (DON-CIO) have begun a Strategic Sourcing initiative targeting Naval-wide Client & Enterprise Computing. Client & Enterprise Computing includes desktops, laptops, servers, and associated software and peripherals that are typically purchased with original system buys of these items.

**Strategy Used for This Initiative:** The strategy being implemented in this initiative is driven by a disciplined five step Strategic Sourcing Process:

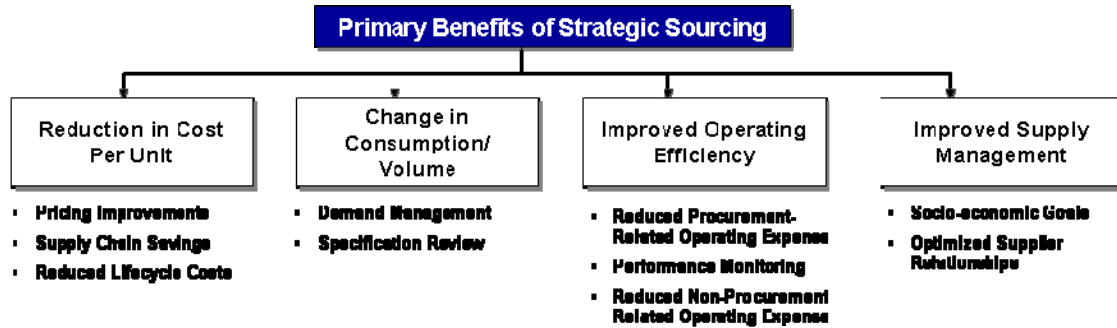


A Commodity Team, consisting of Client and Enterprise Computing policy makers, purchasers, and customers from across the Department of Navy (DON) has been formed to apply the Strategic Sourcing Process to Client and Enterprise Computing. The team has completed the first two procedural steps (Commodity Profile and Market Analysis), and is actively engaged in the third step, Commodity Strategy Development. Client and Enterprise Computing has been profiled through extensive spend analysis, process analysis, and Total Cost of Ownership (TCO) analysis. The Supply Market Analysis included a supplier facing assessment of market trends, vendor analysis, distribution channels investigation, cost structure, and potential sourcing implications. This approach to forming a strategy around Client and Enterprise Computing is unique in a number of ways:

- It takes a holistic view to understand commonality of use across DON with the goal of developing a strategy that meets the goals of the greater DON user community. It is not focused on only one user group.

- The analysis takes a lifecycle view of the equipment, trying to understand how coordinated purchasing can lower maintenance and support costs and help create the technical foundation for future Naval net-centric operations. It does not look only at unit costs.

This strategic sourcing approach focuses on several value levers:



**Figure 14. Primary Benefits of Strategic Sourcing**

**Stakeholders That Will Benefit From This Initiative:** The team currently consists of stakeholders from across the DON, including Head Quarters Marine Corps – Command, Control, Communications, and Computers (HQMC C4), DON Chief Information Officer (CIO), NAVICP, SPAWAR, Marine Corps Systems Command (MARCORSYSCOM), DASN (A&LM), NAVSUP, and Marine Corps Small Business. Each of these stakeholders stands to benefit in improved ability to meet their mission goals, including improved operating efficiency, improved speed of delivery, better vendor management, increase equipment accountability, cost savings, and better utilization of small business.

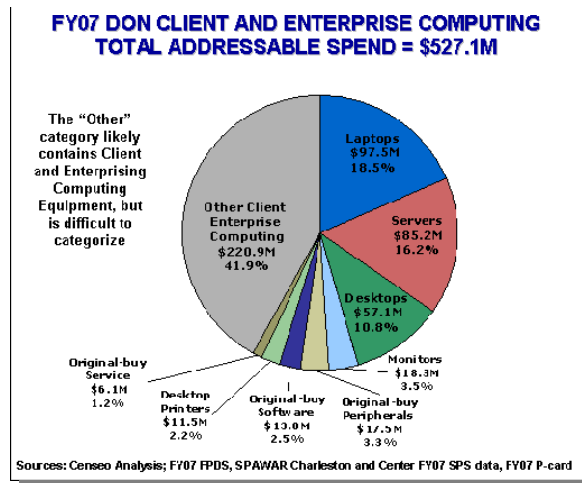
As members of the Commodity Team, these stakeholders have been actively engaged throughout the strategic sourcing process and will continue to be critical during the strategy development and implementation phases. Their responsibilities will include design of any processes and agreements developed as part of the strategy, execution of orders from these vehicles, and management of vendors and contracts.

The vendor community will also benefit from the development of a consistent acquisition strategy. Stable demand predictions, collaborative technology roadmap planning, and optimized supplier relationships will increase supplier operating efficiency and establish predictable sales amongst the supplier base. Additionally, several small suppliers may be offered institutionalized ordering vehicles.

**How Other MILDEPs or ODAs May Benefit From This Strategic Sourcing Initiative or May Apply a Similar Initiative To Their Spend:** The purchase of Client and Enterprise Computing equipment is not unique to DON, and all MILDEPs and ODAs purchase Client and Enterprise Computing Equipment extensively. Although the strategy is still under development, there are a number of ways in which it may directly benefit other MILDEPs:

- A potential strategy will be the use of contracts owned by other DOD agencies. The inclusion of DON spend in their contracts will help drive higher volumes and more negotiating power. Purchasing from the same contract will also begin to drive intra-DOD standardization. This will improve information exchange abilities and improve security.
- The strategy may also include the development of a contract open to other DOD agencies. Offering use of this contract to other DOD agencies will increase ease of purchasing for these groups, as well as drive standardization across DOD.

**Total Spend Data for This Commodity:** An extensive Client and Enterprise Computing spend analysis was conducted for fiscal year (FY 07). This spend analysis revealed approximately \$527.0M in spend. As indicated in the figure below, DON Client and Enterprise Computing spend includes mostly Laptops, Desktops, and Servers, but also significant monitors and other original buy peripherals purchases.



**Figure 15. DON Client & Enterprise Computing Addressable Spend**

**Total Cost Avoidance Identified:** Total cost avoidance will be determined during the Commodity Strategy step of the Strategic Sourcing process, in which a business case will be developed. Cost avoidance will be achieved partially through unit price reduction, but the strategy is also expected to significantly ease required resources for the ordering process, ongoing maintenance, and support functions.

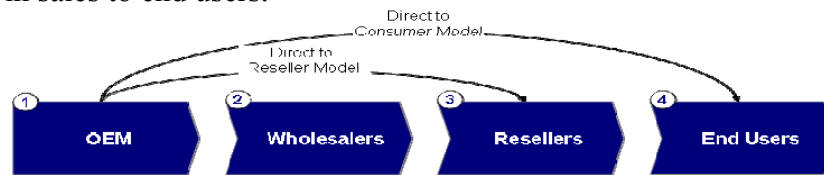
**Metrics That Will Be Monitored in Order to Demonstrate the Performance of This Initiative:** Metrics tracked for this strategy will relate to cost, availability, and asset accountability.

- Cost efficiency metrics may include: Total Operating Cost, Total Units, and Cost per Unit.
- Operational efficiency metrics may include: number of contracts, ordering lead time, order fulfillment, and delivery time.

- Asset accountability may include: Number of units purchased, customer, and contracting office.

The specific metrics to be tracked will be identified by the Commodity Team during the implementation phase.

**Socio Economic Goals, Benefits Expected, and/or Impacts to Small or Disadvantaged Businesses:** Small businesses primarily exist in the reseller segment of the distribution value chain. Resellers are better suited to provide equipment when specialized equipment and value-added service are required, and this strategy may encourage these types of acquisitions to go to small businesses. The chart below shows the distribution value chain, outlining the resellers and OEM positions in sales to end users.



**Figure 16. Distribution Value Chain**

Small business currently holds approximately 31.5% of DON Client and Enterprise Computing spend. One of the strategy objectives is to maximize the usage of small business capabilities without decreasing utilization below current levels.

**Additional Benefits to be Derived From the Strategy (non-monetary):** The DON IT Equipment Commodity Team has developed objectives for this strategy that include many non-monetary benefits:

- Create technical foundation for future Naval net-centric operations
- Reduce Total Lifecycle Cost
- Reduce time from requirement identification to delivery
- Maximize usage of small business capabilities
- Improve ability to manage IT assets and spend
- Increase strategic vendor and IT management
- Structure compliance into acquisition process
- Enhance network security

## **UNITED STATES MARINE CORPS**

### **UNITED STATES MARINE CORPS SUPPLY STUDY – HAZMAT**

**Commodity Category Description:** The initial Supply Study addressing hazardous materials (HAZMAT) was tabled in order to focus on more traditional GRSS issues. In FY 08 an initiative was launched to develop an enterprise-wide approach to HAZMAT from cradle to grave. HAZMAT is inherently complex involving Safety officials and external regulatory reporting as well as requirements generators, the supply chain, a reuse chain, and disposal chain. Strategic sourcing principles that seek to understand what drives the requirement are paralleled in environmental pollution prevention principles and both seek to reduce adverse impacts on a total life cycle rather than first cost basis.

**Strategy Used for This Initiative:** Multiple processes and multiple stakeholders have been identified and vary by the base being reviewed. As the GRSC model is implemented, an opportunity exists to reengineer the process and define an Integrated Enterprise solution which capitalizes on capabilities previously unavailable. A holistic look from procurement to waste disposal is being conducted. By integrating the entire process it is expected to achieve reduced inventory, waste, and workload as well as increase asset or hazard visibility.

**Stakeholders That Will Benefit From This Initiative:** Potentially all Marine Corps installations.

**Additional Benefits to be Derived From the Strategy (non-monetary):** An installation-wide HAZMAT approach can be challenging for an installation with significant tenants, hence a standardized enterprise-wide plan is a worthy enterprise stretch goal. This is less the development of an acquisition strategy and is more using new capabilities to allow better tracking and managing of the requirement itself.

### **UNITED STATES MARINE CORPS IT CT – IT SERVICES**

**Commodity Category Description:** In FY 08 IT Services was identified as the next major opportunity for the Marine Corps Information Technology Commodity Team (IT CT) and preliminary work was begun. IT Services is anticipated to be a major FY 09 effort for the IT CT. Due to common participants with the DON CT this effort may not begin until late in FY 09, should it be approved to move forward.

**Strategy Used for This Initiative:** It is expected that a full commodity team will be implemented for IT Services with deliveries including a Commodity Profile, a Market Analysis, and a Commodity Strategy. The strategy will be to focus on high spend and high demand IT Services.

**Stakeholders That Will Benefit From This Initiative:** USMC purchasers of IT Services

**Total Spend Data for This Commodity:** \$241.7M per year

**DON LESSONS LEARNED/BEST PRACTICES/RECOMMENDATIONS:**

The DON continues to develop lessons learned and best practices. Implementing the practices listed below can greatly increase the overall success of strategic sourcing initiatives. Practices such as involving key stakeholders early, and keeping them engaged in the process can streamline the collection of key information as the team works through the phases of strategic sourcing. The collaborations will also facilitate the building of strong coalitions that will allow for more successful implementation of strategic sourcing strategies.

The following is a consolidated list of lessons learned and best practices from the many DON strategic sourcing commodity councils and initiatives:

1. Involve key stakeholders early on in the strategic sourcing process
  - Provides validation through every step of the analysis and stakeholders are involved in the development of the commodity strategy, recommendations, and contracting phase
  - Stakeholders will be more likely to accept and implement the commodity strategy recommendations if they have a sense of ownership as they are involved in the process and have validated the analysis
  - Key stakeholder involvement upfront will also ensure the commodity team has senior-level executive leadership or sponsorship to implement the commodity strategy
    - The authority (and its scope) under which the contract vehicle will be implemented should be clear
2. As results become more visible, demand for strategic sourcing assistance increases
  - The stakeholders in one strategic sourcing initiative can easily become the champions or leaders of the next strategic sourcing initiative
3. Work with key customers to clearly capture and articulate requirements
  - Workshops/working sessions with key customers can be used to capture or confirm requirements
  - The process to capture requirements should focus on both current and emerging requirements
  - By engaging requirements generators early in the process, it avoids unnecessary market costs, reduces the burdens on the end user, reduces adverse impacts at disposal, and achieves other benefits throughout the organization
  - Information gathering meetings should also be viewed as change management opportunities
  - The information gathering meetings performed during the Commodity Profile and Commodity Strategy stages are great opportunities to begin the Change Management

process by conveying to interviewees the benefits they may see from the strategy and addressing any issues or concerns

4. Involve Small Business Advocacy Group as early as possible
  - Determine the role of Small Business in the contracting process
  - Work proactively with Small Business representatives to ensure that Small Business contracting goals are met
5. Determine source selection participants early in the contracting process and get them involved in the process as early as possible
6. Develop a communication plan or strategy for key stakeholder groups
  - Communications must be structured early in the process
  - The communication plan should identify all relevant stakeholders and outline communications (i.e., type, frequency and mode) to them
  - It is helpful to segment stakeholders into groups and communicate with each group accordingly
  - The focus of the communication plan should be to raise awareness, communicate benefits, gain buy-in and identify potential issues
  - Using the Responsible, Accountable, Consulted, Informed (RACI) communications model, we have generated e-mails, personal conversations, and briefings to keep each stakeholder appropriately informed
7. Set ground rules early: When two different organizations (with different missions) collaborate, swim lanes and team roles must be identified and cemented early
8. Determine if business processes are part of the problem: The cradle-to-grave ordering process, from “procurement” to “invoice payment” must be understood
  - A willingness to change the processes and implement new policies for an improved process should be a team deliverable
9. Team members must be empowered to pursue alternative solutions, even if they are outside of the “as is” process
  - The current ordering process (not just poor vendor performance) could be part of the problem
10. Look beyond the basic spend analysis when performing opportunity assessments and try to identify “where the pain is” across its life cycle
  - Success rests on actually improving something, so it is particularly important to involve all stakeholders when identifying “where the pain is”
11. Continue to explore opportunities to leverage Strategic Sourcing on the full range of Commercial Services Management initiatives



12. Continue to explore reducing real or perceived restrictions or barriers to Strategic Sourcing teaming among the Agencies and Services within DoD at DoD Strategic Sourcing Directors Board (SSDB) meetings
13. Don't try to make solutions too big at first but instead establish successes and then apply them to related areas or expand their scope
14. Consider expanding the commodity examined across its "cradle to grave" life cycle to include operation, sustainment and disposal - not just the up front procurement
  - Disparate acquisition processes may only be symptomatic of larger process oriented problems which may deserve a solution of their own
15. Strategic Sourcing can generate cost avoidance opportunities other than purchase price
  - While it is expected that initiatives will generate purchase price reductions, great cost avoidance can also be expected in other components of total ownership cost
  - A central acquisition vehicle can also ease contracting resource requirements, as the contracting process will be streamlined. Ultimately, these benefits may outweigh cost avoidance expected in unit price.
16. Strategic Sourcing requires an understanding of current spend, in order to select categories with the most improvement potential, and also to identify opportunities and solutions for each category
  - Strategic Sourcing cannot be performed by the implementation of broad, unwarranted policies and must be tailored to each situation
17. Requirements perceived to be different across the DOD may actually be very similar
  - By looking at organizations outside of the DON, we not only found an opportunity to maximize the benefit of the initiative, but also a vehicle to potentially serve at part of our strategy
18. As better Strategic Sourcing solutions are implemented, there are positive consequences where each improvement can be built on with new, additional, solutions

## **SUMMARY**

The Department of the Navy achieved much success in the area of Strategic Sourcing in FY 08. The strategic sourcing initiatives ranged across a variety of products and services including Office Supplies, Clerical Services, Furniture, Logistics, Maritime Coatings, Supply Study, Multifunction Devices, and IT Peripherals. The projects totaled over \$370.0M in spend and all produced, or are expected to produce, significant savings and cost avoidance.

As provided in this report, DON initiated one new strategic sourcing initiative in FY 08, and the Navy & the USMC each initiated two new strategic sourcing initiatives in FY 08. The initiatives represented products and services including Audio-Visual Equipment, IT Hardware, MRO, HAZMAT, and IT Services. Each initiative is expected to produce significant future cost savings and cost avoidance.

Cost savings and cost avoidance are not the only goals of the commodity teams. The teams have continued to focus on meeting socio-economic goals with each initiative. DON recognizes the importance of including small businesses in the strategic sourcing process. Mandating the use of DOD EMALL for Office Supplies resulted in 71% of FY 08 office supply spend with small businesses, awarding contracts specifically to small businesses such as the Furniture BPAs of 31.8% of spend and Maritime Coatings awards of 43% of spend are all real examples of how DON has continued to support small businesses.

Each strategic sourcing initiative has resulted in lessons learned and best practices that can be leveraged with each new project. Applying these lessons learned and best practices have all ready proven to create efficiencies and better results across each commodity team. Simple practices like getting the stakeholders involved at the start of the project can have a tremendous impact on the project outcome and overall team experience. Positive results and experiences will help keep DON moving forward to achieve future objectives and goals.