# THE STATE

OF

THE

DEFENSE

LOGISTICS AGENCY

## May 1994

## AT A GLANCE

The Defense Logistics Agency, a joint-service combat support agency, exists to provide effective and efficient logistics support common to each of the military services, commanders-in-chief, other Department of Defense components and government agencies, and authorized foreign governments. This support includes:

- Obtaining, storing, and distributing spare parts and other consumables, including fuel, clothing, medical, subsistence, construction, industrial, general and electronic items.
  - Providing distribution services for materiel owned by the military services.
  - Performing contract management services for DOD and certain federal agencies.
  - Directing reutilization and marketing of excess military property.
  - And managing the Defense National Stockpile and the federal supply catalog.

DLA consists of a headquarters in Alexandria, Va., 16 primary-level field activities within the continental United States and several hundred subordinate activities worldwide. The agency's workforce comprises approximately 57,000 people, including 1,000 military officers. The agency is led by a director, a three-star billet that rotates among the military services, who reports to the undersecretary of defense for acquisition and technology.

## A Partnership

DLA's primary objective is to support the readiness of the warfighter while constantly devising new or reengineered processes that reduce costs. To remain the provider of choice, the agency must enhance the warfighters' readiness—that is, contribute to the military services' sustainability posture by providing what's needed, when it's needed, where it's needed. To do so, DLA is in the process of proposing custom support for each commander-in-chief, or CINC.

In the recent past, DLA revised its materiel positioning policies to enhance responsiveness and developed an improved process for projecting war reserve requirements. The agency is currently implementing strategies to improve support for contingencies and the ability to support weapon systems. These enhancements are facilitated by exploiting technology, seeking continuous improvement, and measuring results.

For example, DLA is applying electronic commerce methods to streamline logistics support. DLA has expanded the Defense Contract Management Command's role in the early phases of systems acquisition. DLA continues to improve the security aspects of materiel demilitarization. DLA business areas have set specific goals in the context of the agency's strategic planning process. And above all, DLA empowers its employees to achieve

professional excellence by being flexible, responsive to the customer's individual needs and creative in solving problems through the synergy of teaming. The key to the agency's success is its well-trained, properly rewarded employees.

## Restructuring Headquarters

Shortly after assuming command in July 1992, Vice Adm. Edward M. Straw selected a committee of senior agency officials to lead the effort in reengineering the headquarters organization in order to improve accountability and revitalize a focus on the customer. Based on recommendations from the committee, the director selected the headquarters configuration shown in Figure 1.

The new organization features an executive team consisting of a principal deputy, deputy directors heading three business areas—materiel management, acquisition and corporate administration—a chief financial officer and a general counsel.

Duplicate layers of managers were eliminated. Functional stovepipes succumbed to an emphasis on multifunctional teams, each dedicated to refining and improving processes, solving problems, compressing process time and reducing cost. Team members are being cross-trained in broad business skills rather than in narrowly defined technical specialties. Authority to formulate and execute budgets has been given to the respective managers responsible for program operations in the business areas. Figure 2 lists some of the topics on which teams are concentrating.

## Rightsizing the Field

All primary-level field activities now report to one of the three deputy directors on the executive team (see Figure 3). The activities have been organizationally realigned according to processes rather than by functions to be more responsive to the needs of customers and to optimize the use of shrinking resources.

Wherever possible, DLA has merged, streamlined, or eliminated field regions, districts and operating offices. In addition, operations at the remaining field activities are evolving to a functional routine that relies upon **logical processes**, each of which must pass a value-added test in order not to be eliminated or restructured.

At our inventory control points, or buying centers, DLA's acquisition and supply management experts are being reorganized into integrated process units or commodity business units. These streamlined teams integrate the multifunctional talents of their members to foster an environment with less red tape, more efficient and cost-effective buying practices, and significant improvements in the delivery of service to customers—all achieved with fewer personnel. Team members are grouped in physical proximity according to

commodity (see Figure 4), with each person applying his or her respective expertise at appropriate stages of the acquisition process.

Another new process involves the development of a **logical inventory control point**. The ICP 2000 concept will permit optimum "planned loading" of requirements and workload by using state-of-the-art telecommunications and information technology.

Finally, the Base Realignment and Closure process is having a major impact on DLA. The agency's 1988 and 1991 BRAC involvement was limited to the closure, movement or realignment of small, tenant DLA activities at major military installations being closed. In BRAC 93, however, several DLA primary-level field activities were identified for merger, realignment or closure (see Figure 5). Specifically, two of the five contract management districts are being closed and two of the six ICPs will be merged, significantly reducing overhead costs. The agency will also close four distribution depots collocated with maintenance depots slated for closure. BRAC 95 will present an additional opportunity to streamline DLA's operations.

## **MISSIONS**

DLA's three primary operational missions—supply, distribution and contract management—provide DOD with a powerful logistics capability for operations support. Each of these areas is discussed in detail below.

## Supply Management

DLA has six inventory control points that manage the majority of items consumed by the military. The ICPs buy the items from commercial vendors and sell them to the military customer, shipping either via direct vendor delivery or from storage in one of DLA's distribution depots. In 1993, DLA's sales from 25 million customer orders amounted to \$11.6 billion.

Four of the ICPs procure so-called hardware items—the critical spare parts and weapon systems items needed to keep ships, tanks and planes operational. A fifth ICP buys petroleum products. The sixth ICP purchases medicine and medical supplies, clothing and textiles, and subsistence. Specific examples of the items procured range from "A" to "Z" and include:

- Defense Construction Supply Center: Aircraft propellors, cranes, escalators, fencing, lifesaving equipment, lumber, plumbing fixtures, tractors and vehicular components.
  - Defense Electronics Supply Center: Antennas, circuit breakers, fiber optic cables,

microcircuits, oscillators, resistors, semiconductors and transformers.

- Defense Fuel Supply Center: Anthracite and bituminous coal, heating oils, jet fuels, motor gasoline and natural gas.
- Defense General Supply Center: Batteries, cameras, dyes, generators, inspection gages, kitchen equipment, rigging gear, waxes and x-ray film.
- Defense Industrial Supply Center: Bearings, bolts, chain, engine filters, gas turbines, iron and steel products, nails, nuts, rivets, screws, turbosuperchargers and wire.
- Defense Personnel Support Center: Apples, boots, caps, coffee, eggs, meat, milk, quinine sulfate, surgical instruments, underwear, uniforms, yarn, zinc oxide and zucchini.

In 1989, DLA's proven track record in supply operations led the Defense Department to direct the transfer of some 1.1 million consumable items from the military services to DLA for management—700,000 by November 1994 and 400,000 more beginning in fiscal year 1995. At the conclusion of the transfer, DLA will be responsible for 4.1 million items in all, or 95 percent of the consumables used by the military services (see Figure 6). A majority of the items managed by DLA are repair or replacement parts to support weapon systems.

In addition, DLA's Defense Logistics Services Center manages the federal supply catalog, which contains common nomenclature on more than 6 million items, including the repairable items managed by the military services.

Another specialized supply responsibility managed by DLA is the reutilization and marketing of excess and surplus personal property. The experts in DLA's **Defense**Reutilization and Marketing Service attempt to find other military customers who can reuse assets no longer required by another DOD component. If a new user cannot be found, items are in turn offered to other federal agencies, donated to state and local governments or sold through public auctions.

As the U.S. military has downsized, the amount of materiel turned in to DRMS has increased dramatically—from \$11.6 billion in fiscal 1990 to \$29.3 billion in fiscal 1993—and is expected to remain high until the drawdown is complete. DLA has managed this 153-percent increase in workload with only a 4-percent increase in the workforce and with 9 percent fewer processing sites. Moreover, despite the projections of continued high workload, DLA plans to close an additional 12 percent of the processing sites and reduce personnel by at least 6 percent by fiscal 1999. Presently, DLA is exploring privatization and various commercial practices as means to decrease costs while increasing revenues.

To safeguard against surplus materiel falling into the wrong hands, DLA is presently working with the military services to review demilitarization codes for property designated as arms, ammunition or other implement of war. This fast-track project will ensure surplus spares for weapon systems are identified for the proper level of destruction or export control. Because even outdated technology can be of value to many buyers, this program is an important step in thwarting unauthorized weapons proliferation.

During World War II, U.S. manufacturing capabilities were hampered by an insufficient

supply of certain strategic and critical raw materials. Therefore, the Defense National Stockpile was created in 1946 to maintain reserves of such materials. Management of the stockpile transferred to DLA from the General Services Administration in 1988.

The kinds and amounts of materials in the stockpile have varied considerably over the years, based on an ongoing evaluation by various executive-branch agencies regarding what the country's industrial base would require to operate during a national emergency if supplies from abroad were cut off. Today, the bulk of the stockpile consists of steel-making and alloy materials like chromium, cobalt and titanium, as well as obsolete but once critical materials like thorium nitrate and tin. The current value of the stockpile is about \$5.7 billion.

#### Distribution

In 1990, the Defense Department directed the consolidation of all distribution depots under DLA. Through operational efficiencies such as a 24.8 percent reduction in personnel from a baseline of 25,702, reductions in projected military construction requirements, and efficiencies from standardization of the data-processing system, the depots have since saved \$845 million, well ahead of the pace needed to meet the fiscal 1997 goal of \$1.2 billion. Combined with smarter material positioning and improved distribution techniques, depot consolidation promises better customer support at lower cost.

Currently, the distribution system comprises 26 major depots and 34 smaller operations whose combined storage capacity of 105 million square feet contains \$99 billion worth of materiel. DLA's warehouses process principal end items managed by DLA and the military services, support the maintenance and operational requirements of the services' industrial activities, and ship 95 percent of all DOD foreign military sales requirements. In fiscal 1993, DLA depots processed about 40 million receipt and issue transactions.

By the time the 1993 base-closure process is complete, DOD's storage requirements will have decreased by 28 percent (see Figure 7). The agency expects to reduce storage requirements—and in turn, needed capacity—even further through innovation and reengineering practices.

## Contract Management

DLA's Defense Contract Management Command administers contracts, large and small, throughout the world for the military services, the National Aeronautics and Space Administration, other federal agencies and certain foreign governments.

Historically, each military service administered its own big-dollar weapon systems contracts, and DLA managed a large number of smaller-dollar contracts for itself and the services. But in February 1990, the Defense Department transferred administration responsibility for

( virtually all defense contracts to DLA's newly created DCMC.) Today, DCMC manages more than 388,000 contracts, with a contract value of \$840 billion, that DLA and the services have awarded to some 24,000 defense contractors. Since consolidation, DCMC has reduced its workforce by more than 6,300 personnel (see Figure 8) and its field activities from 141 to 101. By fiscal 1997, the consolidation will have saved the American taxpayer more than \$1 billion.

DCMC plays a vital role throughout the acquisition cycle as its specialists perform some 67 distinct functions. Before an award is made, for example, DCMC reviews requests for proposals and conducts pre-award surveys. Subsequently, the command brings its expertise to bear in such diverse disciplines as forward pricing rate agreements, technical and program support, quality assurance, authorization of progress payments and contract closeout. Because DCMC's knowledgeable personnel serve on-site in the major contractor plants, they are well-situated to assist program managers in areas of particular concern, such as control of overhead costs.

Committed to being the government's provider of choice for contract management, DCMC is now expanding its services to an increasing array of other federal agencies, many of which do not have personnel with DCMC's specialized experience. Today's DCMC is looking beyond contractor compliance with rules and regulations to dynamic strategies that reduce life-cycle costs and deliver higher-quality products in a more timely manner.

## **Operations Support**

As a combat support agency, DLA began supporting combat operations within hours of the invasion of Kuwait. From August 1990 to March 1991, DLA provided supply support, contract management, technical and other logistics services to all military customers, unified commands and allied nations engaged in Operations Desert Shield and Desert Storm. For example, DLA completely outfitted the medical ships Comfort and Mercy in less than five days. DLA provided millions of spare parts for weapon systems and 225 million meals-ready-to-eat, or MREs. DLA quality assurance personnel deployed to facilities in Malta to ensure that contractors overseas properly rebuilt engines needed by U.S. forces. The Defense Reutilization and Marketing Service established an office in-theater to assist in the retrograde of materiel. In October 1991, Secretary of Defense Dick Cheney awarded DLA the Joint Meritorious Unit Award for the outstanding support it provided during Operation Desert Storm.

DLA also provides food, fuel, clothing, construction materials, medicine and repair parts to alleviate human suffering during natural disasters and in other humanitarian relief efforts worldwide. This capability was convincingly demonstrated after Hurricane Andrew, when DLA established a forward depot at the Miami International Airport to receive and process extensive relief supplies in support of the Federal Emergency Management Agency and other government agencies. Similarly, during the Midwest flooding disaster in 1993, DLA

supported National Guard units working to contain the floods. And in 1992 and 1993, DLA supported United Nations forces deployed as international peacekeepers in Somalia and Bosnia.

DLA is continually updating its operational concepts to reflect lessons learned from these operations. For example, the agency worked closely with the deputy assistant secretary of defense for humanitarian and refugee affairs to develop and procure a humanitarian daily ration, a vegetarian product that can be used in relief efforts to feed people whose cultural and ethnic backgrounds prohibit consumption of meat products.

## Reshaping the Paradigm

**D**LA began process reengineering and reshaping the paradigm before these terms became part of the vernacular. As such, the National Performance Review includes a number of innovative, leading-edge DLA programs which are already well under way. Several of these initiatives—examples of how **DLA** is reengineering its business practices—are described below.

DLA has made impressive progress since January 1993 in obtaining the automated capability for improved **warfighting assessment** (see Figure 9). The model DLA has developed provides the capability to:

- Determine critical item shortfalls.
- Project when a specific item would be out of stock.
- Identify weapon systems at risk.
- And provide information on items used on more than one weapon system— significant in making sound investment decisions.

Figure 10 illustrates the process. The model will eventually compare the sustainability requirements of all of the services on an item-by-item basis. In conformance to whatever scenario is outlined in the specific time-phased operations plan of a commander-in-chief, the model will identify how much of each item will be needed and whether the required amount will be available when needed from on-hand stock or through DLA-arranged direct vendor delivery. DLA will then assess the industrial base's capability to meet the demand. After the military service validates the requirement, it will be submitted through the program objectives memorandum process under the planning, programming and budgeting system.

Recognizing the model's potential benefit to the entire Department's readiness and sustainability posture, DLA initiated and now leads a joint DLA-military service-Joint Chiefs of Staff working group charged with validating the model. DLA reports on progress periodically to the Joint Logistics Commanders.

Creative contracting has already provided major savings by utilizing best business practices of

the commercial sector. The following initiatives are leading to an optimum logistics support strategy that will enhance military readiness, reduce costs and more directly tie industry capability to DLA customer requirements.

- In fiscal 1993, DLA awarded 137,340 contracts to suppliers under its **quality vendor program**, which allows DLA buyers to award contracts on the basis of **best value** criteria rather than lowest price. However, of that total, only 225 contracts were made to other than the lowest-price offeror.
- Under a pilot program called **prime vendor**, DLA is using the commercial distribution system rather than its own inventories to fill customers' needs. Today, for example, two principal vendors have received long-term contracts to provide medical supplies to all Washington, D.C., medical facilities (see Figure 11). This approach has cut overall costs by 40 percent, greatly improved responsiveness by ensuring deliveries within 24 hours, and reduced investment costs such as those associated with maintaining on-hand inventories.
- Buy smart initiatives such as breaking out sole-source contracts and offering vendors family-group contracts are also reducing costs.
- Using market-based techniques, DLA is purchasing increased quantities of fuel when prices are low.
- The agency has embraced **just-in-time** acquisition practices to focus on delivering material from vendors to the customer when needed, rather than storing and building inventories at either DLA or commercially contracted warehouses. Photographic film, a commercial item with high demand and a limited shelf life, was a highly successful agency prototype for **direct vendor delivery**. Based on this success, DVD is now used for a broad range of items and products, which reduces government expenses for transportation and storage.
- Electronic data interchange is being used to transfer data between DLA and its customers and suppliers, reducing lead times, improving productivity, and increasing customer satisfaction. DLA currently has EDI provisions in approximately 44 percent of its contracts and will continue to increase the application of this technique (see Figure 12).
- Under a clothing demonstration program, DLA's Defense Personnel Support Center is using **commercial product descriptions and source selection techniques**, including evaluation of a production demonstration model, to buy 20 commercial and commercial-like clothing items. In general, the demonstration has generated lower unit prices and increased the number of interested vendors. DLA will use the results of this program to support requests for statutory changes as appropriate.
- As an example of reengineering government, DCMC has instituted an innovative approach called **process-oriented contract administration services**, or **PROCAS**. The intent is to improve the manufacturing process instead of performing an inspection to catch rejects at the end of the production line. Teams identify opportunities for improvement and, when deemed beneficial by the contractor, the process is adjusted. This allows DCMC and the Defense Contract Audit Agency to shift scarce resources to more pressing problems and critical processes. Similarly, the contractor conducts assessments of the government's processes. The overriding objective is a rational, integrated operation.
- Under another new program called **FOCUS**, DLA is implementing a customer outreach program that enables DCMC to continuously identify, quantify and monitor customer needs, expectations and satisfaction. After FOCUS surveys target areas that concern customers, DCMC

establishes teams to analyze the problems and improve service.

Under the sponsorship of Colleen Preston, the deputy undersecretary for acquisition reform, DoD has been authorized to establish a pilot program under which selected acquisition programs can be exempted from designated provisions of law and instead conducted according to standard commercial or industrial practices. DLA has proposed a commodity-based pilot program for the acquisition of clothing and textile, medical and subsistence items. The agency is also actively reviewing some 3,000 military specifications for possible conversion to commercial item descriptions. To date, DLA has identified 308 items with a very high potential for conversion.

#### **DOD** Pilot for GPRA

In 1993, Congress passed the Government Performance and Results Act, which requires all federal government organizations to submit and stand accountable for performance-based budgets by 1997. Each organization must develop an annual performance plan and report in the following year on how closely its performance matched the plan. Because DLA had already committed itself to this new way of doing business, DOD selected the agency as the department's 1994 GPRA pilot, which gives the agency the opportunity to influence Office of Management and Budget-directed implementation of the initiative throughout government in 1997.

To date, DLA has integrated its business and strategic plans to link what managers and staff are doing on a day-to-day basis with the agency's long-term goals and objectives. Performance goals and measures will focus on outcomes and quantifiable results, and funding for operational processes, human resources and information technology will be prioritized based on their contribution to achievement of these goals. All of these efforts are directed at improving DLA's responsiveness to its customers and providing the best possible support at the lowest possible price.

### **Benchmarking**

In developing its logistics "should be" performance standards, DLA's business areas have begun specific benchmarking projects that adapt the best business practices from organizations with similar functions. For example, contract management executives are evaluating the performance, budgeting and outcome-oriented decision processes used by the City of Sunnyvale, Calif., to determine which of their techniques can be used. Distribution officials are evaluating options for outsourcing selected storage or physical distribution activities and applying industry standards to various distribution and storage processes. Ultimately, benchmark process models will form the basis for DLA's automated systems process design.

#### **Environmental Issues**

A leader in prudent environmental practices and a good neighbor in the communities where its activities reside, DLA is actively addressing numerous challenges in the environmental arena.



- DLA is the Defense Department's manager for disposal of excess hazardous material and hazardous waste generated by the military services. Through its Defense Reutilization and Marketing Service, DLA ensures that disposal contractors fully comply with all federal, state and local environmental requirements.
- Remediation is under way at the five DLA sites on the Environmental Protection Agency's national priorities list.
- DLA is aggressively pursuing environmental investigations and cleanup at DLA locations identified for base closure.
- The agency is establishing procurement programs to encourage the acquisition of materials with recycled content.
- DLA and the Army Materiel Command jointly sponsored a meeting with other federal and state officials on January 13, 1994, to explore the feasibility of using obsolete M-48 and M-60 tanks to construct artificial reefs along the Atlantic and Gulf coasts. Participating federal agencies included the Departments of Army and Navy, the Environmental Protection Agency, the General Services Administration and the National Marine Fisheries Service. States represented were Louisiana, Alabama, Florida, Georgia, Virginia and Maryland, with an official from the Atlantic States Marine Fisheries Commission representing Massachusetts, Rhode Island, New York, New Jersey and Delaware. Remaining questions about transportation costs and environmental concerns are being studied by subcommittees of the project.
- A DCMC environmental task force has established a pilot program to determine the cost and magnitude of environmental clean-ups at five defense contractor sites. The ensuing environmental policy will provide a logical system for risk-based surveillance at other sites and enhance consistent cost-allowance decisions.

## **IN SUMMARY**

As a joint-service combat support agency and a full partner with the military services in the defense of our country, the Defense Logistics Agency is inextricably linked to the readiness and sustainability of U.S. fighting forces. The logistics support and services that DLA provides is the sole reason for the agency's existence. DLA operates under the premise that every dollar saved on logistics costs is a dollar that can be leveraged to improve warfighting preparedness, preserve force structure or fund force modernization initiatives.

DLA's determination to drive down costs by reengineering the agency's business practices will not abate. More breakthroughs in warfighting assessment and adoption of commercial practices are continuously occurring, enhancing DLA's role as an innovative and responsible force multiplier. The Defense Logistics Agency will continue to be the **provider of choice** for the military services—around the clock, around the world.

## FOR FURTHER INFORMATION

To make a specific inquiry, call a representative in the public affairs office (PAO) or the small and disadvantaged business utilization office (SADBU) appropriate to the commodity or service in which you are interested.

## Headquarters

Director, Defense Logistics Agency Cameron Station 5010 Duke Street Alexandria, VA 22304-6100

**PAO**: 703-274-6135 **SADBU**: 703-274-6471

## **Inventory Control Points**

Defense Construction Supply Center 3990 East Broad Street Columbus, OH 43216-5000

**PAO**: 614-692-2328 **SADBU**: 800-262-3272

Defense Electronics Supply Center 1507 Wilmington Pike Dayton, OH 45444-5000 **PAO**: 513-296-6421

**SADBU**: 800-225-9771

Defense Fuel Supply Center 5010 Duke Street Cameron Station, Bldg. 8 Alexandria, VA 22304-6160

**PAO**: 703-274-6489 **SADBU**: 800-523-2601

800-468-8893 (Virginia only)

Defense General Supply Center Bellwood Petersburg Pike Richmond, VA 23297-5000

**PAO**: 804-279-3139 **SADBU**: 800-227-3603

800-544-5634 (Virginia only)

Defense Industrial Supply Center 700 Robbins Avenue Philadelphia, PA 19111-5096

**PAO**: 215-697-2310 **SADBU**: 800-831-1110

Defense Personnel Support Center 2800 South 20th Street Philadelphia, PA 19101-8419

**PAO**: 215-737-2311 **SADBU**: 800-523-0705

### **Distribution Regions**

Defense Distribution Region East

Bldg. 81

New Cumberland, PA 17070-5001

**PAO**: 717-770-7209

Defense Distribution Region West 700 East Roth Road Stockton, CA 95296-0010 **PAO**: 209-982-2839

#### **Service Centers**

Defense National Stockpile Center 1745 Jefferson Davis Highway Crystal Square Bldg. 4 Suite 100 Arlington, VA 22202 PAO: 703-274-6135

Defense Reutilization and Marketing Service Federal Center 74 Washington Avenue North Battle Creek, MI 49017-3092

**PAO**: 616-961-7014

**Surplus Property Hotline**: 800-222-3767

Defense Logistics Services Center Federal Center 74 Washington Avenue North Battle Creek, MI 49017-3084

**PAO**: 616-961-7014

General Information: 616-961-4000

#### **Contract Management**

Commander, Defense Contract Management Command 5010 Duke Street Cameron Station, Bldg. 8

Alexandria, VA 22304-6100

**PAO**: 703-274-6135

Defense Contract Management District Northeast 495 Summer Street Boston, MA 02210-2184

**PAO**: 617-451-4298

Defense Contract Management District South 805 Walker Street Marietta, GA 30060-2789

**PAO**: 404-590-2809

Defense Contract Management District West 222 North Sepulveda Boulevard El Segundo, CA 90245-4320

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Defense Contract Management Command International 2000 Hamilton Street
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#### **Others**

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