Inventory Retention Decisions

References: Refer to Enclosure 1.

1. PURPOSE. Retention decisions determine how much existing stock we should keep rather than dispose. These decisions consider readiness/contingency factors and the economic determination of determining when the point where the cost of storing excess material exceeds the potential cost of procuring material that currently stratifies as potential Reutilization Stock. The focus of inventory retention applies to ensuring DLA retains adequate inventory without unneeded storage costs to support the DLA goals of supplying the right item, at the right time, at the right price. There is no specific DLA level metric for this process. The process owner does however monitor the percent of inventory that stratifies as potential reutilization stock (PRS), economic retention stock, and contingency stock. Process owner also monitors the percent of disposed inventory that is repurchased within 5 years of disposal. The outputs of this process are disposal recommendation to inventory mangers.

2. APPLICABILITY. This Instruction applies to Headquarters (HQ), Defense Logistics Agency (DLA) and DLA Primary Level Field Activities (PLFA). It pertains only to the retention or disposal of stocked, ready for issue, non shelf life material, and it does not address Defense Energy Support Center (DESC) managed items.

3. POLICY. Inventory, regardless of location, will be properly categorized with regard to retention and mechanisms will be in place to take proper retention, redistribution, and disposal actions against those inventories.

4. RESPONSIBILITIES.

   a. HQ DLA J-33 is responsible for:
      1) Ensuring that approaches for determining Economic Retention levels are valid and implemented throughout DLA
      2) Ensuring Inventory stratification processes identify disposal candidates
      3) Monitor the timely disposal of inventory exceeding ERL and Contingency Retention
      4) Ensuring that Contingency Retention Stock is validated by PLFAs on a yearly basis
      5) Approving any blanket disposal exclusions for contingency retention

   b. PLFAs are responsible for:
      1) Complying with DLA economic Retention Policy
      2) Annual validations of contingency Retention requirements with their customers
      3) Disposing of material that stratifies to Potential Reutilization within a timely fashion. (i.e. within 3 months of stratification)
5. PROCEDURES. Refer to Enclosure 1.


Director, DLA Enterprise Support

Enclosures
   Enclosure 1 – References
   Enclosure 2 – Procedures for DLA Instructions
Enclosure 1

REFERENCES


2. DLAM 4140.2, VOL II, part 1, Chapters 31 and 37. **NOTE:** Chapters 31 and 37 will eventually be superseded by DLA Instructions.
PROCEDURES

1 Stratify stock. DLA inventory shall be stratified applicably as Approved Acquisition Objective (AAO) stock, Economic Retention Stock (ERS), Contingency Retention Stock (CRS), and Potential Reutilization Stock (PRS).

2. Determine Economic Retention Stock Limit. Economic Retention Stock Limit (ERL). The Economic Retention Limit is the level of stock above which it is considered more economic to dispose than retain. Barring other retention reasons, stocks above the ERL are classified as Potential Reutilization Stock (PRS) and are candidates for disposal. ICPs may authorize disposal to an inventory level below the ERL, given sufficient information that the stock will not be required for future use.

2.1 Replenishment Items. The basic ERL for replenishment items will be as computed by SAMMS, i.e., the sum of the following:

2.1.1 Eight times the QFD or the Balance OWRMR, whichever is greater

2.1.2. Sixteen times the QFD

2.1.3. Additive requirements (SPRs, ONRRs, etc) with future support dates

2.2 NSO Items. The ERL for NSO items is computed by SAMMS as three times the NSO quantity plus additive requirements. An additional quantity of three times the NSO will be added as Additional Economic Retention Quantity to determine the ERL for NSO items. Because the NSO quantity is based on the previous year’s demand and is often zero, ICPs may modify the NSO quantity to prevent premature disposal.

2.3. Additional Economic Retention Quantity (AERQ). AERQ will be used to increase SAMMS computed ERLs for other than contingency reasons. When used for any reason other than the NSO additives described above, AERQ will be justified in writing, and the documentation will be retained as long as the AERQ remains. Documentation must include substantial evidence of the need for the additional stock. AERQ other than the three-NSO additive will be reviewed annually.

3. Determine Contingency Retention requirements.

3.1 DODM 4140.1-R defines three types of Contingency Retention:

3.1.1 Military contingency: assets needed to meet military contingencies for U.S. Forces.

3.1.2. Potential security assistance: assets held in expectation of foreign military demand under U.S. security assistance but not under CLSSA (i.e., non-CLSSA).

3.1.3. General contingency: assets based on potential usefulness, for extreme reprocurement
problems (to include DMSMS) or other special considerations involving nonmilitary contingencies, such as civil emergencies or natural disaster relief.

3.1.4. Stocks held at the request of the Military Services for a specific military contingency will be held under category (1) above. Documentation of the request and rationale must be maintained to support the retention decision. Stocks held based on a Military Service request to retain parts for specific weapon systems (see below) will be reported as general contingency (category 3 above).

3.2. Review Contingency Retention Stock. DOD 4140.1-R requires an annual review and certification of all Contingency Retention Stocks (CRS). This review must be conducted on an item-by-item basis, verifying that, “...the reason for contingency retention still exists and the coding of the reason for contingency retention is correct”. Accordingly, using end-of Fiscal-Year data, ICPs will report the following to HQ DLA (DLA J3322) by 30 November each year for each of the above mentioned codes:

3.2.1. Number of NSNs
3.2.2. CRS on-hand dollar value (acquisition cost)
3.2.3. Total on-hand stocks (acquisition cost)
3.2.4 Total annual demand value (acquisition cost)

4. Review Zero Demand Stock. Upon experiencing five consecutive years with no demand recorded, items will be reviewed for disposal. Barring other requirements to retain the item, non-weapon system items will be disposed down to zero-balance, and the item reclassified as non-stocked. Unless deleted through the Defense Inactive Item Program (DIIP), items with application to active Service weapon system items will not be disposed down to zero. If known, the smallest depot locator quantity (e.g., bin, rack, etc) will be retained, but in no case will a disposal action result in retention of fewer than twelve units.

5 Support FMS Reserve. The Foreign Military Sales (FMS) Reserve program is a DOD-directed program to help provide continued support of weapon systems that have been phased out of use by U. S. Forces and planned for use by FMS customers. DLA will freeze disposals for up to two years in order to make parts available to those customers. Following the two-year period, normal disposal rules will apply. Stocks held in FMS Reserve will be classified as Contingency Retention (Category 2, Potential Security Assistance) for stratification purposes, and will be available for issue to all customers following normal requisition processing rules. The sponsoring Service will notify DLA HQ of pending sales of weapon systems phased completely out of use by U. S. Forces, and for which withholding disposal of parts is deemed necessary. If those weapon systems are no longer in DLA files, the sponsoring Service will request establishment of new Weapon System Designator Codes (WSDCs), classify the systems as level C (least critical), and submit WS1 transactions to register applicable items to the system, identifying the items as non-essential to that system (EC-3).

6 Exclude items from disposal.
6.1. General Exclusions. Certain items will be exempt from disposal action. These include:

6.2 Items managed for less than two years, as determined by the SAMMS Date Management Assuming.
6.3 Items provisioned less than four years ago.
6.4 Items bought in the past two years.
6.5 Items under a Weapon System Exclusions.

6.5.1 Under certain conditions, items with application to specific weapon systems may be excluded from disposal. Requests for such exclusions must be presented, with justification, by the office of the responsible weapon system manager, to HQ DLA (J332). Weapon system exclusions may not be set unilaterally by ICPs. Valid reasons for excluding weapon system items from disposal may include:

6.5.2 Aging weapon system not planned for phase-out in the near future.
6.5.3 Parts have very infrequent use, but with expected demand.
6.5.4 Change in maintenance concept expected to reactivate “dormant” items.
6.5.4 Extended service life program.
6.5.5 Out-of-production, sole-source items. NOTE: This exclusion is temporary; such items should be established in the DMSMS program, with disposal managed accordingly.
6.5.6 Very low-density (small fleet) weapon system vulnerable to parts shortages.
6.5.7 Licensing and contractual requirements which preclude disposal.
6.5.8 Demands hidden by limited warranty program.
6.5.9 Temporary interruption in fielding plan.
6.5.10 Weapon system program managers will be expected to verify weapon system disposal freezes every two years and to insure accuracy of weapon system application and essentiality data.
6.5.11 Unless otherwise stated, disposal freezes will apply to all items with application to the weapon system, not just unique items.
6.5.12 Immediately upon receiving word from HQ DLA, ICPs will initiate the freeze and maintain assets of affected items above the ERL in contingency retention.
6.5.13 Determine minimum retention requirements. Minimum retention quantity for weapon system items will be the lesser of on-hand assets or twelve units. No minimum applies to non-weapon system items.
6.5.14. Make retention and disposal recommendations. DLA shall retain stock up to the sum of the AAO, ERS, and CRS as defined below. Stocks above that sum shall be reviewed for transfer to DRMS as soon as practical.