SUBJECT: Maximum Utilization and Drawdown of Defense Logistics Agency (DLA) Inventory

References:  (a) Assistant Secretary of Defense for Materiel Readiness Memorandum, “Maximum Utilization of Government-Owned Inventory in Performance-Based Logistics Arrangements,” December 20, 2010
(b) DoDI 4140.01, “DoD Supply Chain Materiel Management Policy,” December 14, 2011
(c) DLAI 1105, “Engagement Strategy for Performance Based Logistics,” March 27, 2003, Modified December 1, 2009
(e) Federal Acquisition Regulation (FAR), Volume 1, Part 8, March 2005

1. PURPOSE. This issuance sets DLA policies, procedures and responsibilities for working with the Military Services (MILSVCs)/Federal Agencies to ensure the drawdown of DLA-owned/managed materiel before the MILSVCs/Federal Agencies purchase the same materiel from a commercial source. It also reinforces DLA’s commitment on using government-owned material before engaging in any commercial product support strategy (e.g., Performance Based Logistics and partnering agreements) to buy from a commercial source in accordance with the Assistant Secretary of Defense for Materiel Readiness Memorandum and DoDI 4140.01 (References (a) and (b)).

2. APPLICABILITY. This Instruction applies to all DLA activities.

3. DEFINITIONS. See Glossary.

4. POLICY. It is DLA policy that:
a. DLA engage with the MILSVCs/Federal Agencies on commercial product support strategies where DLA can provide a level of support that enhances warfighter capabilities and offers the best value. DLA shall ensure the maximum use of DLA-owned/managed on-hand and due-in materiel prior to entering into a commercial product support strategy agreement.

b. Based on the MILSVCs/Federal Agencies market share, DLA will negotiate the scope of the drawdown that they will purchase from DLA prior to buying from a commercial source.

c. If a MILSVC/Federal Agency has already entered into a partnering agreement to buy from a commercial source when DLA assets are available and these assets have been forecasted for the particular service, DLA and/or the Department of Defense Inspector General (DoD IG), require a coordinated drawdown effort with the MILSVCs/Federal Agencies. DLA will adjust stocking objectives accordingly. Drawdowns required based on DoD IG studies shall be coordinated by each Primary Level Field Activity’s (PLFA) Internal Review Office (IRO).

d. DLA conduct periodic inventory reviews, in addition to the initial analysis, of DLA-owned/managed inventory used in commercial product support strategy agreements at award of each contract, issuance of modifications, and exercise of option years.

e. DLA and commercial vendors adhere to the Federal Acquisition Regulation (FAR), Volume 1, Part 8 (Reference (e)).

5. RESPONSIBILITIES. See Enclosure 1.

6. PROCEDURES. See Enclosure 2.

7. INTERNAL CONTROLS. Signed commercial product support strategy documentation and quarterly drawdown meeting minutes/summary.

8. RELEASEABILITY. UNLIMITED. This Instruction is approved for public release and is available on the Internet from the DLA Issuances Internet Website.

9. EFFECTIVE DATE. This Instruction:

   a. Is effective on March 5, 2014.

   b. Must be reissued, cancelled, or certified current within 5 years of its publication in accordance with DLAI 5025.01, DLA Issuance Program. If not, it will expire effective March 5, 2024 and be removed from the DLA Issuances Website.
Enclosures

   Enclosure 1 – Responsibilities
   Enclosure 2 – Procedures

Glossary
ENCLOSURE 1

RESPONSIBILITIES

1. THE DIRECTOR, LOGISTICS OPERATIONS (J3). J3 shall:
   
a. Sign the negotiated drawdown agreement.

b. Adjudicate all drawdown issues elevated by the J31 National Account Managers (NAMs).

2. THE COMMANDERS OF PLFAs. The PLFAs shall:
   
a. Ensure that requirements (i.e., timeframe, dollar amount, and/or quantity) for the drawdown of DLA material are included in known newly developing MILSVC/Federal Agency or DLA-led product support strategies and contractual arrangements in accordance with DLAI 1105 (Reference (c)).

b. Identify when to engage the MILSVCs/Federal Agencies into the drawdown of DLA-owned/managed materiel based on a new commercial product support strategy.

c. Engage with the MILSVCs/Federal Agencies when a need to coordinate a drawdown has been identified through an audit, Inspector General investigation, or some other means.

d. Review existing commercial product support strategy agreements to ensure compliance with the Assistant Secretary of Defense policy (reference (a)) and elevate to J3, via appropriate DLA Headquarters (HQ) Service NAM(s), for adjudication.

  e. Adhere to the guidance on adjusting inventory levels and forecasting to meet demand changes as directed in DoD 4140.1-R (Reference (d)).

  f. Determine the MILSVCs/Federal Agencies market share to drawdown.

  g. Perform all necessary transactions to conduct the drawdown.

  h. Conduct periodic inventory reviews at key milestones (see para 4d, page 2). Monitor, report and manage the drawdown to completion.

3. THE OPERATIONS AND SUSTAINMENT OFFICE (J31). J31 shall:

a. Serve as HQ DLA customer focal point for all customer commercial product support strategy engagement initiatives.
b. Assign an Action Officer to assist Lead Supply Chains and supporting PLFA focal points when HQ DLA corporate supply chain and Customer Relationship Management expertise is required to ensure optimum commercial product support strategy solutions are attained.

c. Coordinate drawdown agreement with PLFAs for J3 signature.

d. Identify PLFA responsible for negotiating the drawdown with the applicable MILSVCs/Federal Agencies, when more than one PLFA is impacted.

4. SUPPORT EXECUTIVE DIRECTORATE (J34). J34 shall:

a. Complete supportability analysis as required.

b. Assist in obtaining the customer’s forecast.

c. Coordinate with the PLFA’s to prevent further requisition fulfillment of completed drawdown materiel.

d. For DLA HQ led initiatives, conduct periodic inventory reviews at key milestones (see para 4d, page 2). Monitor, report and manage the drawdown to completion.

e. Engage with the MILSVCs/Federal Agencies to support maximum use of DLA materiel on DLA-led commercial product support strategy initiatives.

f. Provide oversight and assistance on commercial product support strategies to NAMs and PLFAs.

6. THE DLA OFFICE OF OPERATIONS RESEARCH AND RESOURCE ANALYSIS (DORRA). DORRA shall obtain the DLA Total Inventory (which includes the official DLA Inventory Stratification (STRAT) Inventory levels) and demand data and provide to the appropriate Supply Chain (SC) Directorate of Customer Operations (DCO).
1. **Determine Level of Drawdown.** The following steps are required to determine the drawdown quantity:

   a. DCO determines if the drawdown is the result of a DoD IG study or a new commercial product support strategy. If it is the result of a DoD IG study, then engage the PLFA IRO to begin the process; otherwise begin the process as outlined in this Instruction.

   b. DCO determines which specific customer site(s) by Department of Defense Activity Address Code (DoDAAC) (if available) and weapon system, etc., will be supported via the commercial product support strategy.

   c. DCO obtains Bill of Materiel (BOM) from commercial product support strategy program manager (PM), military customer(s), DoD IG, and/or Product Support Integrators (PSI) where DLA will not be or is no longer used as the supplier. Provide the BOM to the Review, Research and Analysis (RR&A) Office.

   d. DCO obtains a copy of the (draft) commercial product support agreement and passes it to the RR&A Office for them to use the calculation date for computations of the drawdown.

   e. DCO determines from MILSVCS/Federal Agencies if there will be a formal notice for DLA to initiate a stop replenishment date. The stop replenishment date would be for DLA to stop procuring parts based upon the former user’s demand signals.

   f. If there is a Weapons System Designator Code (WSDC) of the specific system(s) or subsystem(s) currently being supported, obtain that WSDC to determine how many weapons systems and which Service(s) are going to be affected by the changes in support and/or as a result of the commercial product support strategy and/or drawdown process. This information can be shared at the PLFA level for impact on other programs/systems.

   g. DCO will fully engage the Business Process Support (BPS) Office for any support needed.

   h. The RR&A Office will request the DLA Total Inventory and demand data from DORRA. (Important: DLA Total Inventory is defined as DLA STRAT Inventory plus on-contract Purchase Orders – see Definitions, page 11.)

   i. Utilizing the BOM, customer DoDAAC and/or DLA demand data, the RR&A Office determines the customer’s market share of demands for each National Stock Number (NSN) over the last 24 months based upon DLA Total Inventory and demand data.
j. DLA Total Inventory quantity will be the maximum amount drawn down for any item. Where customer market share is 100% of the demand for an item, the DLA Total Inventory becomes the drawdown amount. Where customer market share is less than 100% of demand, multiply the customer market share percentage times the DLA Total Inventory to determine recommended drawdown quantity. The recommended drawdown quantity will be equal to the calculated market share quantity or the projected demand over the period of performance of the contract, whichever is less. Drawdown will not be required for items with 25% or less market share. The RR&A Office calculates market share and drawdown quantities for each NSN based on the following:

\[
\text{Market Share} \% = \frac{\text{Customer Demand}}{\text{Total Demand}}
\]

\[
\text{Drawdown Quantity} = \text{Market Share} \% \times \text{DLA Total Inventory}
\]

\[
\text{Drawdown $ Value} = \text{Drawdown Quantity} \times \text{Standard Unit Price}
\]

k. Troop Support/Land & Maritime Directorate of Supplier Operations (DSO), and/or Aviation Planning Office identifies any special programs in place for the same parts to be covered under the scope of the commercial product support strategy customer (e.g., kitting projects, Long Term Contracts, Collaboration, etc.). Coordinate actions to be taken with appropriate personnel (e.g., acquisition personnel).

l. J34 Planning, working closely with the RR&A Office, will complete a supportability analysis to determine if materiel being proposed for drawdown can be used by other customers (i.e., if the market share of other customers will adequately reduce the stock at the time the contract is initiated. If so, then those NSNs would not be considered for drawdown).

2. NEGOTIATE THE TERMS OF DRAWDOWN. The specific drawdown agreement will vary for each commercial product support strategy, depending upon such factors as the total dollar amount of materiel to draw down, changes in the customer’s forecast as compared to historical use, and the customer market share to apply. A lengthy drawdown may not be necessary if the MILSVCs/Federal Agencies or PSI negotiates a one-time buyout of the entire calculated drawdown market share of parts and materiel. Procedures for moving the materiel to the contractor’s storage facility will need to be developed to support the one-time buyout process. While a buyout would expedite the reduction of parts and materiel from DLA to the Service or PSI, this does not relieve DLA of the requirement to continue to provide parts and materiel to other customers.

   a. The RR&A Office provides the IRO and/or DCO with the NSNs, quantities, and dollar value for drawdown based on their market share. The customer is required to buy their market share of stock for these NSNs.

   b. J34 Planning, in coordination with SCs and the customer, will obtain the customer annual forecast, not to exceed five years, where DLA will not be the supplier. This will help determine drawdown timeframes.
c. The PLFAs will ensure the following information is negotiated in the drawdown agreement with the MILSVC/Federal Agency and forwarded to J3, via the J31 NAM, for signature.

   (1) Who submits drawdown requisitions (military customer and/or PSI)

   (2) Specific list of NSNs

   (3) Drawdown quantity per NSN

   (4) Terms of the drawdown (number of months/years/$ value)

   (5) DoDAAC(s) to be used for the drawdown (customer and/or commercial product support strategy PSI)

   (6) Any special project codes to identify drawdown requisition

   (7) Any special advice codes to be used (2J - fill or kill)

   (8) All requisitions should be coded as nonrecurring "O" coded demand (this is the letter O, not the number 0). Demand Code O requisitions will deplete inventory and the demand history will not be used in developing forecasts and replenishment actions in the Planning System.

   d. The commercial product support strategy agreement should outline what actions DLA will take if requisitions are received by the commercial product support strategy customer or PSI after the drawdown is completed or if requisition quantities exceed the agreed upon quantities per each NSN. DLA will not fill requisitions for the commercial product support strategy customer after the drawdown is complete.

   NOTE: If a vendor desires to use DLA as a continuing source of supply once the inventory drawdown is complete, they must advise DLA as far in advance as possible so that the particular NSN(s) will not be included in the list for the “CQ” reject and the demand can factor into inventory planning again.

   e. DCO ensures terms of the drawdown are amended into the commercial product support strategy contract (if the PSI is to draw down materiel).

   f. If the drawdown will be completed by the commercial product support strategy PSI, the DCO will ensure the commercial product support strategy contract authorizes the PSI to use the DOD Military Standard Requisitioning and Issue Procedures process, or the DOD EMall. Ensure the MILSVC/Federal Agency provides the commercial product support strategy PSI with a MILSVC/Federal Agency approved DoDAAC as directed in the FAR, (Reference (e)).
g. Include in the agreement an option for DLA to buy back materiel, if required, from the customer or PSI if DLA has received a funded requisition by a different customer for the material (e.g., a non-forecasted demand arises for a NSN, and DLA has none on the shelf).

h. The agreement should contain information on actions to take as the agreement time period comes to an end (i.e. Commercial entity will need to supply demand data for the past XX years at least a procurement lead time away prior to termination of the agreement to allow DLA ramp up time). The PLFA must continue coordination throughout the life cycle of the agreement to ensure future support is not compromised.

3. EXECUTE THE DRAWDOWN. Once the commercial product support strategy agreement has been signed by DLA and the customer, the following actions should be taken:

a. Regardless if the drawdown is initiated as a result of a commercial product support strategy or as a DoD IG report, all associated requisitions drawing down DLA assets will be coded as non-recurring demand code of: “O”. The “O” code suppresses the demand signal; therefore, replenishment does not take place. The Demand Planner should periodically check to ensure the demand forecasts are truly reflecting the decreases in demands and will ensure that Enterprise Business System does not replenish.

b. The RR&A Office will send the drawdown list of DoDAACs and NSNs to Defense Logistics Agency Headquarters (DLA HQ) (Email to HQ J331 Order Mgmt) once the drawdown is complete. HQ J34 Order Fulfillment will forward the list to the appropriate Supply Chain(s) to update the Selective Edit Table (SET) with a Rule 1 (Cancel New Requisitions) with a “CQ” reject code (Rejected, Item requested is command or service regulated or controlled. Submit new requisition through appropriate channels) for the particular DoDAAC/NSN/Project Code combination.

c. The Supply Planner will be responsible for updating the SAP Material Master Record with an external (SIMI) item note citing the particular commercial product support strategy details. Details should include the implementation date, affected DoDAAC(s), and a date that the material will be reviewed to ensure information is still accurate. A mass update can be done for all NSNs on the same commercial product support strategy agreement via a ZSM_MASS_UPDATE transaction.

d. The RR&A Office will track the progress and provide recurring status via a tracking tool developed by HQ DLA J34 Planning.

e. DCO/DSO/Planning will conduct drawdown meetings on a quarterly basis between DLA, MILSVCs/Federal Agencies and the PSI until drawdown is completed. The BPS Office will keep the appropriate offices (e.g., SC Demand, Supply and Contracting Offices) informed of the drawdown actions/status (e.g., drawdown plans, quantities, timeframes, etc.).

f. DCO elevates any issues where the customer or DLA is not performing per the commercial product support strategy agreement to the appropriate DLA HQ Service NAM (J31)
and/or to the IRO so they may elevate the issue to whomever necessary (customer, DoD IG, IRO) to resolve the problem.
## GLOSSARY

### PART I. ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>BOM</td>
<td>Bill of Material</td>
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<tr>
<td>BPS</td>
<td>Business Process Support</td>
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<tr>
<td>DCO</td>
<td>Director of Customer Operations</td>
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<tr>
<td>DLA</td>
<td>Defense Logistics Agency</td>
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<td>DLA HQ</td>
<td>Defense Logistics Agency Headquarters</td>
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<tr>
<td>DLAI</td>
<td>Defense Logistics Agency Instruction</td>
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<td>DoDAAC</td>
<td>Department of Defense Activity Address Code</td>
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<tr>
<td>DoDI</td>
<td>Department of Defense Instruction</td>
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<tr>
<td>DoD IG</td>
<td>Department of Defense Inspector General</td>
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<tr>
<td>DSO</td>
<td>Directorate of Supplier Operations</td>
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<tr>
<td>FAR</td>
<td>Federal Acquisition Regulation</td>
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<tr>
<td>IRO</td>
<td>Internal Review Office</td>
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<td>MILSVC</td>
<td>Military Service</td>
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<tr>
<td>NAM</td>
<td>National Account Manager</td>
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<tr>
<td>NSN</td>
<td>National Stock Number</td>
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<tr>
<td>PLFA</td>
<td>Primary Level Field Activity</td>
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<tr>
<td>PM</td>
<td>Program Manager</td>
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<tr>
<td>PSI</td>
<td>Product Support Integrator</td>
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<tr>
<td>RR&amp;A</td>
<td>Review, Research and Analysis</td>
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<tr>
<td>SC</td>
<td>Supply Chain</td>
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<tr>
<td>STRAT</td>
<td>Inventory Stratification</td>
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<tr>
<td>WSDC</td>
<td>Weapon System Designator Code</td>
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PART II. DEFINITIONS

Unless otherwise noted, these terms and their definitions are for the purposes of this Instruction only.

“After the Fact” drawdown. Occurs when MILSVC, Federal Agency or PM chose, at some time in the past, to obtain parts from other than DLA and did not drawdown the inventory which DLA had purchased for them. Subsequently, an IG, DoD finding, or report has determined that the abandoned inventory should be drawn down to deplete the stagnate inventory. This inventory would normally consist of only the Stock on Hand in DLA warehouses.

Bill of Material. The list of materiel that the service will no longer be purchasing from DLA wholesale inventory.

Calculation Date. The agreed upon date used to determine the existing inventory. It will be the current date or some future date, and must be equal to or after the stop replenishment date. For “after the fact” drawdowns, a past date can be used.

Customer Demand. The customer’s demand for a 24-month period based on DLA demand data.

DLA Total Inventory. DLA STRAT Inventory (includes all categories of on-hand inventory) plus on-contract POs (e.g., Due-ins).

Drawdown. A term that refers to the process of reducing existing DLA inventory by attrition and/or buyout. Occurs when the Service or PM chooses to obtain DLA managed parts from someone other than DLA. Therefore, the intent of the drawdown is to deplete the previously purchased or contracted inventory which was purchased or contracted for the particular Service or program (based upon past and present customer demand signals).

Drawdown Dollar Value. The drawdown quantity times the standard unit price.

Drawdown Quantity. The market share percentage times the DLA Total Inventory.

Market Share. The percentage of the customer demand divided by total demand.

Stop Replenishment Date. The date DLA stops procuring parts for the particular customer based upon the customer’s demand signals.

Total Demand. All demand for the same 24-month period as the customer demand based on DLA demand data.