DIRECTOR'S GUIDANCE 2014

DEFENSE LOGISTICS AGENCY

Fiscal Year 2014 Director's Guidance

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Director, DLA

Team,

Our theme this year is Staying The Course. That makes my guidance to you pretty easy – keep doing what you're doing. You've made great strides in the goals set out in my 2013 Guidance – in fact we've exceeded those goals in several key areas thanks to your focused efforts, hard work and dedication. I've told you nobody knows this stuff better than you do, and you're proving that every day.

This Guidance will give you a quick snapshot of how we're doing with our Big Ideas and a few things we need to focus on in the year ahead. We're maintaining our goals to significantly improve support to our customers while dramatically driving down costs for operations and material. But the targets get more aggressive as we go forward. We've upped 10-in-5 to create even more savings; our new goal is to slash $13.1 billion in operating and material costs over the next six years. We'll get there by doubling down on the hard work you've done so far. There are more savings out there and I'm depending on you to find them. We're doing great, but we still have a long way to go.

As we face the significant fiscal and strategic challenges ahead, we must remain resolute and continue to lead the way in innovation and transformation. Acting together, with enthusiasm, optimism and focus, we WILL continue to achieve great things. What you do makes a difference so keep charging. I am very proud of you and this great organization!

"Significantly improve performance while dramatically reducing cost"

Staying The Course:

Our priorities to significantly improve performance while dramatically reducing cost remain the same. These are:

Decrease Direct Material Costs

Decrease Operating Costs

Rightsize Inventory

Improve Customer Service

Achieve Audit Readiness

DECREASE DIRECT MATERIAL COSTS:

"Be smart buyers of the right stuff"

Reduce material costs to achieve $13 billion in overall savings in six years through a combination of reverse auctions, commercial-type contract terms, substantial industry partnerships, performance-based logistics and prime vendor contracts, significantly reduced lead times and increasing small-business opportunities.

We've made a big impact here. DLA has substantially increased its reverse auction opportunities, which have led to savings of more than $1.6 billion over the past year, including $400 million from three DLA Energy auctions alone. And we're just getting started. The First Destination Transportation and Packaging Initiative is a collaborative, interagency effort that is expected to save DLA hundreds of millions of dollars in the near future. And across the enterprise, we're using strategic sourcing – which includes initiatives like PBLs and prime vendor contracts – to gain more than $4 billion in savings through 2019. Early results are promising: DLA Troop Support is negotiating better manufacturing discounts and decreased prime vendor distribution fees to save millions of dollars every month – $6 million to $7 million a month on our pharmaceutical contracts alone. And this is how we'll continue to find savings – negotiate harder, be aggressive, do more research, work with our partners, and make smart decisions.

"Significantly improve performance while dramatically reducing cost"

DECREASE OPERATING COSTS:

"Improve process and productivity"

Reduce operating costs through a combination of eliminating, consolidating, and co-locating infrastructure, achieving BRAC "Day 3" efficiencies, optimizing the global distribution network, enhancing retail industrial support, incorporating process improvements, Going Green at DLA operating locations.

We've achieved significant success with our forward stocking initiative in the CENTCOM AOR. At the 5th Fleet, we slashed our logistics response time 81 percent, from 40 days to eight days. We've had the same success with casualty reports, significantly reducing them for patrol craft, mine countermeasure ships and ballistic missile defense ships. In fact, there have been no CASREPs against any forward stocked items for the past nine months. And thanks to our focus on Strategic Network Optimization, we're reducing excess inventory and limiting the number of warehouses we maintain around the globe. This is also allowing us to save money on operating expenses, utilities, maintenance and sustainment. Our Information Operations team is eliminating unnecessary or redundant systems to reduce IT costs. And we're paying more attention to ensuring we're maximizing the usable space of containers shipped overseas. While we're in the early stages of these initiatives, we're already seeing them pay dividends. Pressing hard on these will result in big savings down the road.

Give us your

Improve Customer Service

Decrease Direct Material Costs

BIG IDEAS

Rightsize Inventory

Decrease Operating Costs

Achieve Audit Readiness

REDUCE INVENTORY:

"Clean out the attic and keep it clean"

Rightsize both War Reserves and operational inventory by reviewing and adjusting strategic requirements, leveraging commercial supply chains without redundancy, and improving planning and forecast accuracy.

Our short-term goal is to reduce excess inventory by $6 billion by the end of 2014 without sacrificing military readiness. We've already reduced inventory by $2 billion since 2012, including a reduction in contingency stock from $2 billion to about $500 million. These kinds of savings wouldn't be possible without a whole agency effort, from DLA team members at our inventory control points to DLA Distribution, DLA Disposition Services and DLA Information Operations. Our military Service partners are important members of this team as well. And we're not just "cleaning the attic," we're also focusing on the way we plan for, forecast and contract for items to ensure we don't just fill the attic back up again. Reducing inventory also allows us to reduce our logistical footprint – less stock means fewer warehouses, which leads to even greater savings in the years ahead.

"Significantly improve performance while dramatically reducing cost"

IMPROVE CUSTOMER SERVICE:

"Delight our customers"

Improve customer service and measure performance by customer standards by expanding and strengthening customer/supplier collaboration and ensuring excellence in inventory management.

How do we know how well we're doing? We ask our customers and partners. Earlier this year we surveyed our senior warfighting partners to find out what they thought we were doing well and where they'd like to see us improve. It came as no surprise to me to learn that, overall, they thought we were doing a very good job. They know we understand the mission, they believe we're responsive and that we deliver on our commitments. These results aren't talking about me, they're talking about all of you – the DLA team. We do have areas of concern, however, and we're aggressively attacking those to ensure we meet the needs of our Service partners and warfighting customers. I need you to be proactive in finding solutions to outstanding issues, improve our procurement responsiveness and award contracts quicker, and to make sure what we do, even the little things, make sense. If things don't make sense, change them.

ACHIEVE AUDIT READINESS:

"Prove it"

Demonstrate our commitment to transparency and accountability through our culture of judiciousness, meeting assertion dates, identifying and driving improvement opportunities, and expanding audit readiness beyond process integrity to process excellence.

We are aggressively pursuing audit readiness at DLA. Instead of planning for the 2017 deadline mandated by the Department of Defense, we're targeting the end of fiscal 2015 as our deadline, and we're making steady progress. DLA's Hire-to-Retire program has already achieved assertion, three months earlier than planned. This coming year we're focusing on really proving our numbers, and I need every one of you engaged in this important effort. Understand your processes and the internal controls within them, and make sure the data is accurate and in compliance with the rules. Audit readiness makes us a stronger organization and enhances the trust the public places in us to get things done and done right.

"Significantly improve performance while dramatically reducing cost"

Key Focus Areas for DLA in 2014:

As we begin the new fiscal year, there are three areas I'd like us to pay particular attention to.

Afghanistan: Support the troops in the current fight and pivot to reset, retrograde and transition:

Stay on task; continue to be at the forefront of support to reset and retrograde. One way in which we add tremendous value to our warfighting partners is our willingness to anticipate, plan and move out. Innovative, proactive approaches will continue to push timely disposal, retrograde and lines of communication usage.

Contingencies and Humanitarian Assistance & Disaster Relief Support:

Build on the monumental successes of our Hurricane Sandy support. Get ahead of requirements and have the right material positioned with contingency contracts in place to provide immediate support. Responsiveness is the coin of the realm, so act with a sense of urgency. Our fellow citizens and those in need are counting on you.

Industrial & Platform Support:

Deliver world-class logistics support by leveraging Enterprise Performance Based Logistics and PBL efforts. Optimize Inventory Management and Stock Positioning at Service industrial activities while supporting Strategic Network Optimization, Peak Policy and Next Generation forecasting and inventory rightsizing.

DIRECTOR'S 2014 PRINCIPLES

We are living in historic times … doing things we've never done before … make some history yourself.

Push for smart things to do … don't wait for the requirement … or for folks to ask.

No one knows this stuff better than us … act like it.

I trust you … prioritize, do it your own way but get it done or ensure it gets done.

This is your time … do big things and make it better. If not you, who? If not now, when?

Relationships are key … build them and use them.

Take care of one another.

Keep promises.