

DEFENSE LOGISTICS AGENCY

AMERICA'S COMBAT LOGISTICS SUPPORT AGENCY



Defense Logistics Agency Strategic Sourcing Overview

July 2014



DLA Strategic Opportunities Overview

Key stakeholder relationships to improve support and cost savings

- DLA is strategic sourcing:
 - 51 Strategic Alliances, 77% of Obligations on LTC, 164,240 items on LTC
 - Provides logistics support to other federal agencies and state and local governments (e.g. Hurricane Sandy support: 6 million meals, 48 pallets of bottled water, 171,000 blankets and 9 million gallons of fuel for first responders)
- Focused efforts to expand partnerships with industry, government and customers:
 - Captains of Industry successes
 - Projected **\$1.4B** in Savings through FY18
 - Continue industry ownership of event topics
 - Expand focus to next tier of customers in FY15
 - Expand Industry and Government Partnership
 - Stronger relationships with GSA, DHA, DHS, DCMA, DECA
 - Engagement at Strategic Sourcing Leadership Council
 - Capitalize on commodity expertise with our partners
 - Preferred supplier – prove capability to our DoD partners
 - Boeing COI **\$12B, \$1.2B savings**
 - Food Service Integrator; National Contracts for Medical
 - Sales Contracts – not just rolling stock, but ship recycling



DLA Strategic Opportunities Overview

Applying the principles of BBP2.0 to drive the acquisition agenda

- Increase use of Reverse Auction to enhance competition and achieve savings
 - **5,000** auctions since Jan 2012
 - **\$2B** in savings ... 4% - 20%
 - Best for big dollars, long duration, lots of competition, healthy industrial base
- Work with industry partners to identify PBL candidates
 - Seven new efforts in progress with potential **\$1.84B** savings
- Innovative solutions through incentivizing industry
 - GE Joint Opportunity Contract (JOC)
 - Pratt & Whitney JOC
 - Honeywell JOC
 - Robertson Fuel Systems
- Continued focus on Small Business
 - **FY13 38%** with a goal of 32%
- Competition rate: 86% (93% for services)



Takeaways

- DLA is DoD's strategic sourcing solution:
 - DLA provides nearly 100% of the consumable items to the Military Services, from food, fuel and energy, to uniforms, medical supplies, and construction and barrier equipment.
 - DLA also supplies more than 85 percent of the military's spare parts
- Focus on partnerships with industry and customers to achieve desired acquisition vehicles
- Use of PBLs and strategic contracts to achieve acquisition cost savings
- Drive competition through innovate tools such as Reverse Auction
- Continue to support small business in strategic acquisition



Back-up Slides



DLA Acquisition at a Glance

- **Obligation Trends**

	FY11	FY12	FY13
Obligations	\$34B	\$42B	\$37B
Actions	547K	542K	528K

FY13 Contracts:

- <\$3K: 47,174
- \$3K-\$150K: 454,675
- >\$150K: 26,194

- **Acquisition Workforce (FY13)**

- Contracting: 3.3K
- Contracting Officers: 1.5K

- **Small Business Trends**

	FY11	FY12	FY13
Dollars	31%	26%	38%
Goals	36%	34%	32%

Using AbilityOne for Contract Closeout



Glimpse of DLA Evolving Today

- World-wide presence now directly supporting Combatant Commanders & Military Service Chiefs
- \$46B in inventory sales in FY11... \$44B in FY12... \$39B in FY13
- Simultaneously sustaining primary missions while supporting Afghanistan drawdown
 - Food and fuel posture steady and strong
 - Subsistence Prime Vendor switch in late phases
 - Retrograde... staying well ahead of withdrawal demand despite infrastructure/terrain /political challenges and safety risks
- Expanding Roles and Emerging Opportunities
 - Retail support of Services' industrial sites
 - Procuring Services' new reparable
 - Combating counterfeit replacement parts
 - Focusing on shorter acquisition Times-to-Award, Long Term Contracts and Performance- Based-Logistics
 - Transitioning to commercial grade aviation fuel
 - Executive Agent for emergency food and fuel supplies





Looking Ahead

- Global Shift in Defense Strategy
 - Smaller, leaner ground force... priority shift to Asia-Pacific
 - Army-570K to 490K (410K?)/Marines-202K to 182K (160K?)
 - Counter violent extremists
 - No longer sized to support large-scale, long-term stability ops
 - Quickly regenerate forces
 - Low-cost, small-footprint to achieve security objectives
 - Protecting investments in SOF, ISR, Space, Cyber and Mobility
 - Partner with military industrial base

- Fiscal Outlook – Recurring Budget Reductions
 - \$487B over 10 years (by FY21) per Budget Control Act of 2011
 - Sequestration reducing ~\$500B more if not revised



DLA Engagement of BBP Principles

- **Achieve Affordable Programs**
 - Lifecycle costs savings for IT solutions: \$398.3M for PBR15 across the FYDP
 - Ensure affordability in system changes, and within budget
- **Control Cost throughout the Product Lifestyle**
 - PBLs, LTCs, and Prime Vendors: \$3.2B in savings over 10 years
 - Reverse Auction: \$2.2B and growing!
 - Reduced inventory and footprint, and increased customer service
- **Incentivize Productivity and Innovation in Industry and Government**
 - We are DoD's go-to Strategic Sourcing solution...96% of awards are through LTC relationships (72% of spend goes to Prime Vendor annually)
 - Captains of Industry: \$1.4B in savings through FY18
- **Eliminate Unproductive Processes and Bureaucracy**
 - DLA contracting directives cut in half ... eliminated local policies
 - "Time to Award" effort ... 50% reduction in ALT



DLA Engagement of BBP Principles

- **Promote Effective Competition**
 - Competition rate: 85% (93% for services)...will achieve 88% through breakouts and ending bridges
 - Crushed DLA Small Business goal of 32% in FY13 with 38%!
 - Leadership way of life: “Small Business Fridays”, focus on socio-economic groups
- **Improve Tradecraft in Acquisition of Services**
 - DLA Senior Services Manager and Portfolio Managers in place
 - Commercial practices: Rapid shift in rolling stock sales strategy generates \$100+M/yr...revenue for the Services
- **Improve the Professionalism of the Total Acquisition Workforce**
 - 97% of DLA acquisition workforce DAWIA certified
 - Growth of Life Cycle Logistics workforce ... soon to be 3,000
 - Establish DACM-like office in DLA Acquisition (J7) for DLA



Financial Prognosis

... “13 in 6”

Significantly improved performance to the warfighter while dramatically reducing cost

	FY14	FY15	FY16	FY17	FY18	FY19	TOTALS
OSD-C Guidance (DLA Supply Chain Only)							
Operating Cost (\$ Millions)	\$120	\$145	\$171	\$199	\$199	-	\$834
Materiel Cost (\$ Millions)	<u>\$416</u>	<u>\$629</u>	<u>\$850</u>	<u>\$735</u>	<u>\$745</u>	-	<u>\$3,375</u>
TOTAL	\$536	\$774	\$1,021	\$934	\$944	-	\$4,209
Additional Efficiencies (DLA Supply Chain & Energy)							
Operating Cost (\$ Millions)	\$543	\$599	\$646	\$712	\$851	\$597	\$3,948
Materiel Cost (\$ Millions)	<u>\$327</u>	<u>\$337</u>	<u>\$256</u>	<u>\$648</u>	<u>\$1,001</u>	<u>\$2,404</u>	<u>\$4,973</u>
TOTAL	\$870	\$936	\$902	\$1,360	\$1,852	\$3,001	\$8,921
Total Savings							
Operating Cost (\$ Millions)	\$663	\$744	\$817	\$911	\$1,050	\$597	\$4,782
Materiel Cost (\$ Millions)	<u>\$743</u>	<u>\$966</u>	<u>\$1,106</u>	<u>\$1,383</u>	<u>\$1,746</u>	<u>\$2,404</u>	<u>\$8,348</u>
TOTAL	\$1,406	\$1,710	\$1,923	\$2,294	\$2,796	\$3,001	\$13,130
TOTAL SAVINGS	\$1,406	\$1,710	\$1,923	\$2,294	\$2,796	\$3,001	\$13.1B

Leverage Expanded Strategic Partnerships

DLA Focus on most important items:

Strategic Material Sourcing

DLA Partnerships with major suppliers:

Supplier Alliances

- 51 Strategic Alliances
- 77% of Obligations on Long Term Contract
- 164,240 items on Long Term Contract

- 1st Strategic Supplier Alliance Signed with Honeywell
- 22.9% of Obligations on Long Term Contract

SMS Statistics		
Metric	SMS on LTC	Other Hardware
ALT	1.5	53.9
PLT	25.8	72.5
MA	91.37%	85.02%

Growth in SMS

Growth in Strategic Alliances

Growth in Joint Strategic Opportunities

1999

2013



Strategic Supplier Alliances (SSAs)

FY99	FY02	FY03	FY04	FY05	FY10	FY13
Honeywell*	Boeing	Canadian Commercial Corporation	Eaton+	York	CFM International	Navistar
	Pratt & Whitney	Hamilton Sundstrand*	BAE Systems (Land & Armaments)*	General Dynamic Land Systems*	Woodward Governor	
	General Electric*	Bell Helicopter Textron	AM General*			
	Parker Hannifin	Sikorsky	Goodrich			
	Northrop Grumman		Rolls Royce			
	Dresser Rand*		Meggitt Aircraft Braking Systems+			
	BAE Systems		Moog Inc+			
	Lockheed Martin*		Oshkosh*			
			Raytheon			
			Colfax+			

Aviation Alliance
Land Alliance
Maritime Alliance

*Military Partnership with 9 SSAs

+ Small Business



Supply Chain Alliances (SCAs)

FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY11
CLARCOR	Crane	JGB Enterprises	Meridian	Rockwell Collins	Burlington Industries	Textron Marine & Land Systems
BTMC	Kampi	Penn Detroit Diesel	Owens & Minor	BP		
	SAIC	Wheeler Brothers		NIB		
	Cummins	Badger Truck		DuPont		
	BAE, Sealy	Caterpillar				
	BAE, Fairfield					
	FN Manufacturing					
	NISH					

Medical Alliance
Land Alliance
C&T Alliance
Maritime Alliance
Energy Alliance



Listing of FY14 Planned Strategic Initiatives

- Our mission is perfect for implementing contracts with our major defense contractors to drive reliability and availability – **result – reduce total cost to the warfighter**
- Targeting savings of \$726.5M in FY14

Strategic Opportunity	Type	Award Date
Honeywell Joint Opportunity	Performance Based LTC	AWARDED
Pratt & Whitney Joint Opportunity	Performance Based LTC	AWARDED
Industrial Hardware (Phase I & II)	LTC/PBL	AWARDED
Fire & Emergency Services	PV	AWARDED
Batteries	LTC	FY14
Meggitt	LTC	FY14
Marotta	LTC	FY14
VIRGINIA Class support initiative	LTC	FY15
Special Operations	PV	AWARDED
Boeing	PBLs	FY14
Honeywell	PBLs	FY15
Raytheon (Phase I, II, III)	PBLs	FY14/FY15/FY16



Performance Based Logistics

Performance Based LTC **Honeywell Joint Opportunity**
Pratt and Whitney Joint Opportunity

PBL **Boeing**
Honeywell
Raytheon (Phase I, II, III)

**\$727M Savings in
FY14**

LTC/PBL **Industrial Hardware (Phase I and II)**

PV **Fire and Emergency Services**
Special Operations

LTC **Batteries**
Meggitt
Marotta
Virginia Class Support Initiative

Drive reliability and availability ... reduce total cost to the warfighter



Captains of Industry

INPUT

Partnering with Industry to provide better value and eliminate unnecessary costs in a declining budget environment

- 21 COIs, 10 supply chains
- Frank, 2-way dialogue
- Balanced attendance
- Follow-up!

OUTPUT

\$1.4B
savings through FY18

- Long-term investment strategy
- Time to Award initiative
- Senior level relationships
- Meaningful contractual terms
- Increased PBLs & LTCs

TEAMWORK!

- Boeing
- Honeywell
- Raytheon
- Industrial Hardware IPV
- VIRGINIA Class Support Initiative
- Battery P/V
- Meggit and Marotta

...And
\$37B in 75
new LTC initiatives



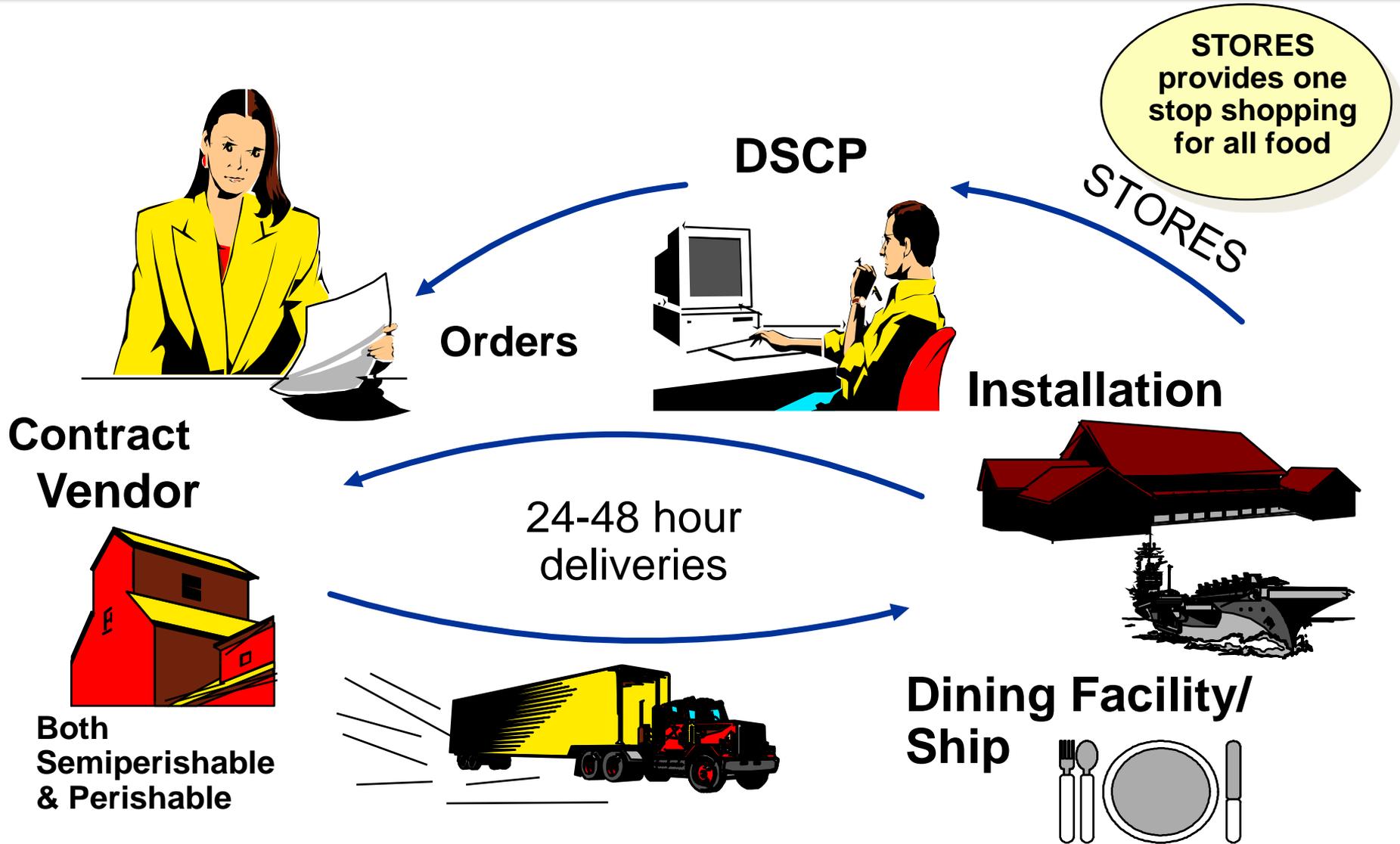
Reverse Auction Overview

- ***DLA Policy***...focus on competitive procurements > \$150k
 - COTS tool; 3,500 vendors & 1,200 buyers loaded
- ***Results***
 - 5,000 auctions since Jan 2012
 - \$2B in savings ... 4% - 20%
 - Works for everything; supplies and services
 - Best for big dollars, long duration, lots of competition, healthy industrial base



Prime Vendor

The Prime Vendor Way





How is Prime Vendor Different?

Traditional Support

- Multiple order lead times
- New items twice a year
- Basic staple items
- Limited items in system
- Manage inventories
- Stock in/stock out
- Paper system

Prime Vendor Support

- 24 to 48 hour lead time
- New items weekly
- Tailored catalogs
- Refined no. of items
- Manage vendors
- Direct Vendor Delivery
- Electronic Commerce

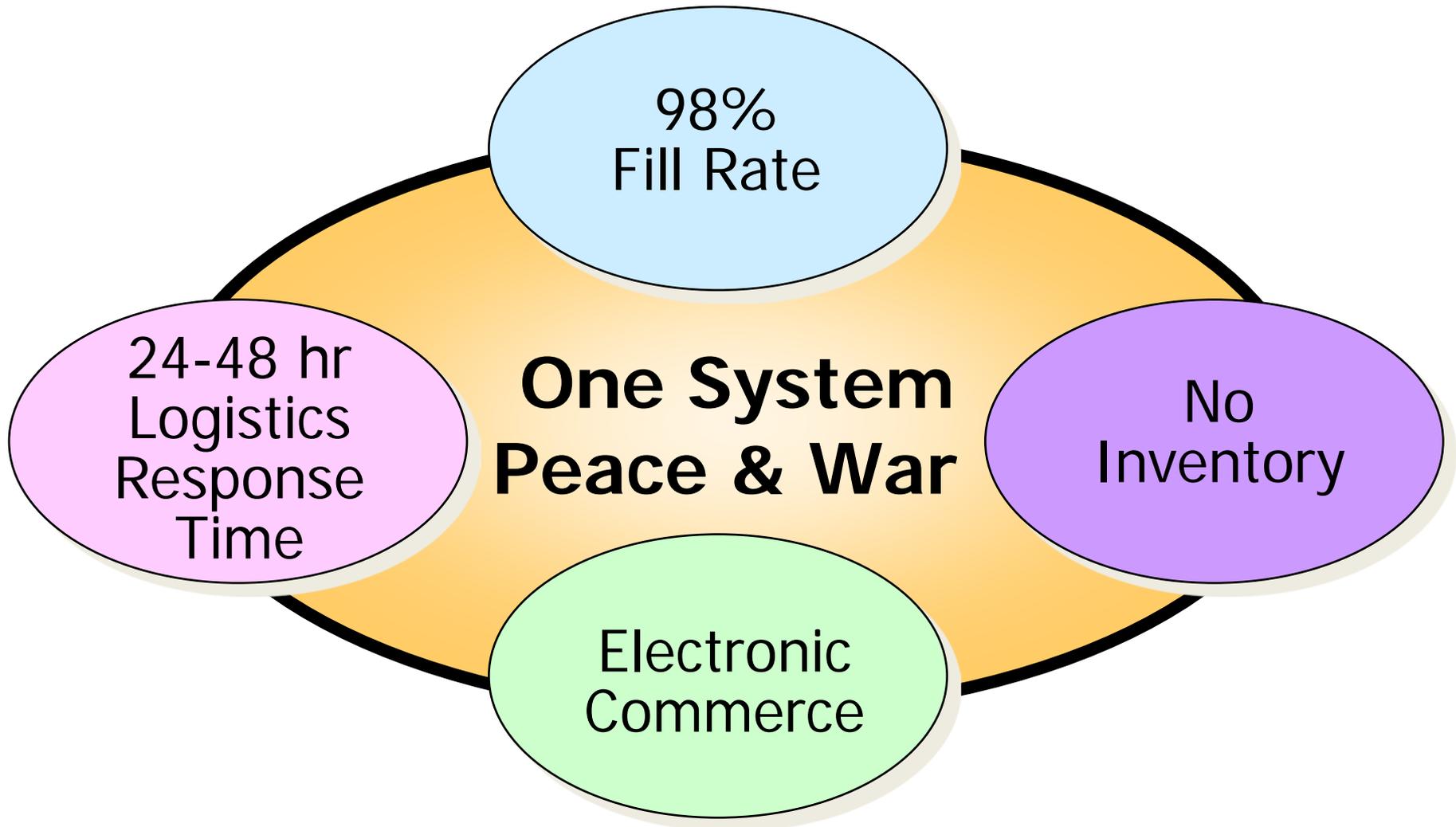


Prime Vendor Benefits

- Dedicated Account Managers
- High fill rates... 98%
- Customer participation in source selection process
- Food audits and food shows
- Pricing reviews and verifications
- Built-in contingency coverage
- Long term best value contracts with surge capability
- Worldwide customer support



Prime Vendor Support





The Bottom Line

- Getting out in front of fiscal challenges
- Focusing on “the basics” and driving change
- Living in historic times... doing some things we’ve never done before
- Driving warfighters’ success and optimal use of resources