



Supply Chain Council Awards for Excellence in Supply Chain Operational Excellence

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Purchasing & Supply Chain Management
Commodity Councils Initiative

This submission is non-confidential



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Executive Summary

This submission chronicles the Air Force's (AF) re-engineering of its supply chain purchasing and management processes to a commercially proven commodity centered approach under its larger Purchasing and Supply Chain Management (PSCM) transformation initiative. In 2004, Air Force Materiel Command (AFMC) established eight Commodity Councils (CC) at its Air Logistics Centers centered on the commodity centers of excellence. These councils will iteratively redirect the command's \$4.2B+ yearly orders to commercial/government suppliers from small tactical contracts into focused strategic sourcing agreements. The first strategic contracts will be signed in February 2005, beginning the harvesting of many cost and weapon system availability benefits detailed herein.

What Are Commodity Councils?

Commodity councils are defined as cross-functional teams that develop and execute commodity sourcing strategies. Five principles guide and monitor the purpose and success of their actions:

1. Provide market knowledge about the technical capability of parts, thereby increasing the value they are able to generate
2. Leverage total enterprise knowledge by being cross-functional and matrixed
3. Focus on groups of similar commodities
4. Maintain continuity as a persistent structure. Operate continuously and are not stood up and disbanded around particular events
5. Operate at the enterprise level

Employed, these five principles enable the AF to develop scalable solutions that result in an AF-wide commodity strategy, an executed commodity sourcing strategy, greater monitoring of supplier performance, improved supplier development, relationship management, and enhanced market research capabilities. The AF now knows more about the products and services it is purchasing thus, is appropriately more aggressive and informed in procurement pursuits!

Need for Change

Prior to the establishment of the commodity councils, AF purchasing activities suffered from an antiquated approach to strategic procurement. Processes were often disjointed, uninformed, involved tactical versus strategic purchasing, and were paper and labor intensive. Commodity councils will be a key driver in achieving a 50% reduction in source cycle time, a 10% reduction in cost, and a 20% improvement in Weapon Systems availability, as evidenced by the following identified opportunities:

- Support Equipment CC identified a reduction of 190 unique oscilloscope National Stock Numbers (NSN) to three (3) common oscilloscope configurations
- Aircraft Accessories CC identified the reduction of 286 contracts with seven (7) suppliers down to five (5) strategic contracts
- Landing Gear CC will reduce Administrative Lead Time (ALT) by 85% through the deployment of 1034 NSNs to strategic contracts
- Landing Gear CC has designed a Strategic Logistics Integration Concept (SLIC) which enables a 25% decrease in acquisition lead time while actively engaging the small business community in the process



Commodity Council Improvements

These identified improvement opportunities, in conjunction with a series of accomplishments to date, pave the way for future successes. So far, in a mere one year's duration:

- Eight CCs have been deployed with common processes and toolsets at three autonomous Combat Sustainment Wings (CSW) including Hill Air Force Base, Utah (OO-ALC), Tinker Air Force Base, Oklahoma (OC-ALC) and Robins Air Force Base, Georgia (WR-ALC)
- CCs have stood up a central market intelligence capability
- AFMC/LG has deployed the Knowledge Now collaborative environment and spend analysis tools for common use across AFMC
- AFMC/LG has established 10 new positions to support CC roles
- AFMC/LG has developed a training regimen and delivered it to over 200 personnel
- AFMC/LG has established a Materiel Governance Board (MGB) that is approving and monitoring the efforts of the CCs

Of all of these accomplishments, the MGB represents the greatest display of AFMC commitment to the Commodity Council Initiative. The MGB integrates multiple directorates of the Air Force Materiel Command (AFMC) including Contracting (PK) and Logistics (LG) and is composed of senior level personnel. The MGB has rapidly progressed in their efforts to meet the vision of the Air Force Materiel Command Directorate of Logistics and Sustainment (AFMC/LG) and has already approved multiple commodity strategies, a CC-wide Commodity Management Plan (CMP), and four (4) Commodity Acquisition Plans (CAMPs). Their earnestness has enabled the CCs to rapidly set and achieve their targets.

A key metric addressed by the commodity councils is the overall reduction in sourcing cycle time or "the time from requirements definition to material receipt." A reduction in sourcing cycle time will manifest into reductions in non-Mission Capable (MICAP) hours, reductions in supply and administrative costs, and result in greater on-time delivery for all commodities.

Commodity councils serve an important function in AFMC sustainment purchasing activities. They provide a forum for knowledge sharing and are recognized as leading the way in the application of commercial best practices to a government operation. Additional government entities have shown a vested interest in the success of the AFMC/LG Commodity Council Initiative. In fact, the United States Marine Corp (USMC) has participated in Commodity Council Training sessions; the United States Navy (USN) has engaged in two involved discussions with AFMC regarding what the Navy has done with Performance Based Logistics (PBL); discussions have begun with Defense Logistics Agency (DLA) surrounding the integration of DLA personnel into the CCs; and Air Staff has already adopted commodity councils as their best practice. The internal organization successes are being shared with external organizations and are resulting in a proliferation of this proven, best practice commodity centric model.

Despite being geographically dispersed sites, CCs have been fully integrated throughout the (AFMC) and represent roughly 91.8% of AFMC's \$6 billion annual spare part spend! Commodity councils have saved a great deal of time and effort and will continue to do so over time. They represent the future of sourcing!



Section 1 – General Information and Project Complexity (15 Pts)

1.1 Name of the submitting organization (corporation, service, etc.)

The submission of this entry is on behalf of the Headquarters Air Force Materiel Command, Directorate of Logistics and Sustainment, Supplier Management Division.

1.2 Responding organizational unit (site, function, etc.).

The submission response organization for this entry is the Headquarters Air Force Materiel Command, Directorate of Logistics and Sustainment, Supplier Management Division (HQ AFMC/LG). HQ AFMC/LG has responsibility for implementation and support of the AFMC commodity councils. In that role, HQ AFMC/LG develops/implements command doctrine, strategies, and regulatory guidance for commodity centric strategic sourcing and supplier relations management for both industry and Department of Defense (DoD) suppliers. HQ AFMC/LG also produces and provides market intelligence information to organization leadership and to the commodity councils to assist in developing strategies.

1.3 Brief Mission Description of the overall business objectives, product lines, and mission of the organization.

It is the mission of the Directorate of Logistics and Sustainment to direct logistics and sustainment activities in support of Air Force combat capabilities by:

- **Supporting the Warfighter** – Provide AFMC activities with resources and infrastructure to deliver warfighting capabilities via increased aircraft/equipment availability at a reduced cost.
- **Develop Our People** – Ensure our people have the right tools, equipment, training, leadership, career progression, mentorship, work environment and understanding of their role to accomplish the LG mission. Make LG the most desirable place to work in AFMC and the Air Force!
- **Provide Actionable Guidance** – Provide AFMC field activities with the most accurate, comprehensive, and up-to-date policies, plans, and programs to achieve their mission successfully, safely, effectively, and efficiently.
- **Transform for the Future** – Implement sustainment transformation, enhancing the command's ability to meet future needs (e.g., acquisition logistics and product support), continue performing core responsibilities, and completing the reorganization of the HQ AFMC/LG staff and the ALCs to ensure better support to the warfighter.

It is the greater intent of the Directorate of Logistics and Sustainment (AFMC/LG) to provide services and support the provision of weapon systems components. AFMC/LG operates under a vision that is set to “exceed customer expectations, providing the most cost effective, timely, and flexible logistics products and services into the 21st century”. One means of achieving these aggressive goals has been the adoption and continuing implementation of the Purchasing and Supply Chain Management (PSCM) initiative. Another means of achieving these aggressive



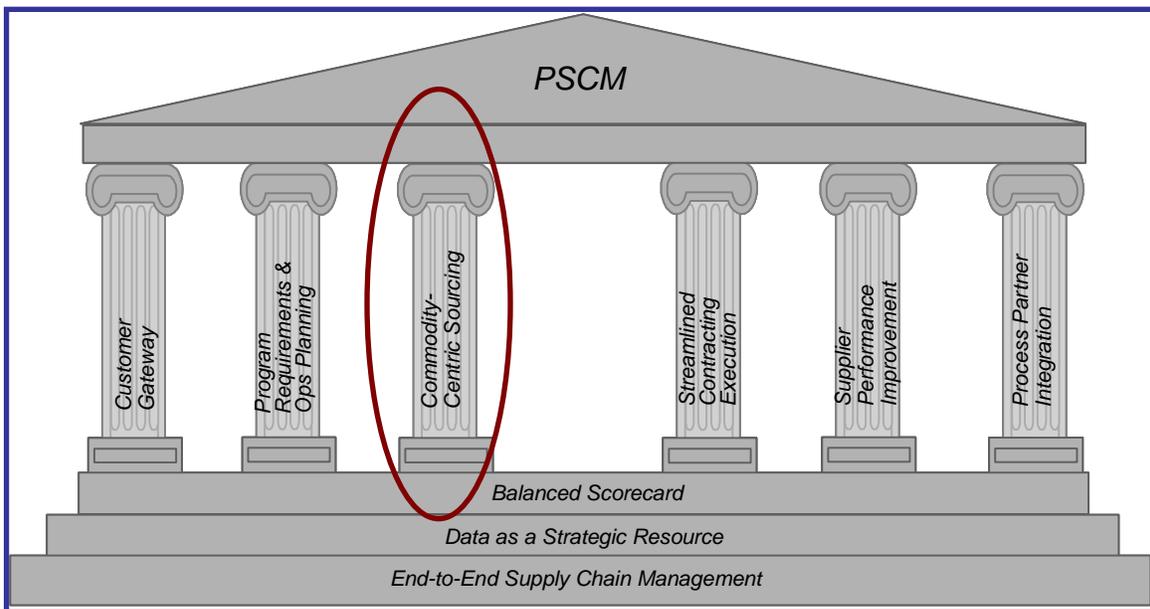
goals is through the alignment to Expeditionary Logistics for the 21st Century (eLog21) mission and goals. The PSCM initiative in particular, through their extensive process redesign efforts, has specifically addressed eLog21's intent to "...boldly transform current logistics processes to better support the warfighter". Focused on improving readiness through the PSCM transformation, AFMC/LG continues to set an example of sustainment transformation excellence.



PSCM integrates the purchasing and supply processes into a single end-to-end process that spans the Air Force supply system, thereby reducing supply chain operating costs and improving warfighter readiness. One aspect of the PSCM initiative is a focused effort to provide improved purchasing capabilities through various steps of the supply chain.

The PSCM initiative carries an aggressive yet attainable vision of enabling "AFMC to be the sustainment supplier of choice for worldwide weapons systems parts and equipment support". Moreover, it spans a series of service offerings aimed toward providing continuity in the AF sustainment transformation objectives. One of the primary service offerings is the establishment and operationalization of commodity councils (see Figure 1.1). Commodity councils represent nearly \$6 billion in Air Force spend equating to roughly 15% of the total annual AF spend. They are recognized as a commercial best practice and an integral part in the overall success of the PSCM.

Figure 1.1



Commodity councils follow a comprehensive eight step, integrated process that revolves around customer support. Each step culminates in work products that ultimately lead to the execution of supply agreements.



Commodity councils have been implemented and operational at three of the AFMC Air Logistics Centers (ALC). The commodity councils are responsible for the development of strategies for commodities managed across the enterprise with each ALC taking the lead role for specific commodity councils. Warner Robins ALC (WR-ALC) has the lead role for the Aircraft Structural, Support Equipment and Electronics/Communication commodity councils. Oklahoma City ALC (OC-ALC) leads the Aircraft Accessories, Aircraft Engines, and Instruments commodity councils. The Landing Gear and Secondary Power Commodity Councils are led by Ogden ALC (OO-ALC). An Implementation Support Team (IST) located at HQ AFMC/LG assures continual communication and integration across the enterprise and between commodity councils at the respective ALCs. It is this adoption of an enterprise integration and communication plan that contributes to the knowledge sharing and mutual success of each CC.

1.4 Award category of the submission (operations, academic, technology) Supply Chain Operational Excellence Award.

The submission of this entry is for the Operations Category and ultimately the Supply Chain Operational Excellence Award.

1.5 Brief description of the supply chain and the processes the submission spans (Plan, Source, Make, Deliver, Return, etc). (15 pts)

The initial scope for AFMC/LG was focused on Air Force managed items. This level of effort directly translated into the need for a more savvy and commodity centric approach to procurement. It is then incumbent upon each commodity council to provide detailed analysis and strategy for their respective commodities. They ensure that the required parts and services are procured and managed to provide the greatest overall value to the enterprise in support of strategic goals. Commodity councils meet their goals through two primary aspects of their operation. CCs operate under a robust governance model ensuring complete accountability. They also adhere to a structured 8-step process that guides the actions and decisions of the councils. These two components link the strategies to the operations.

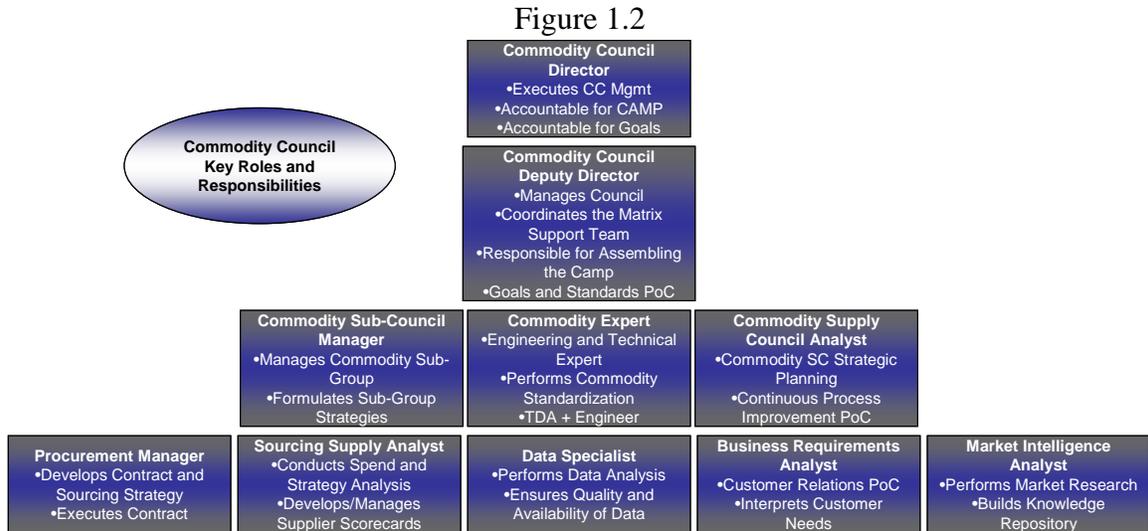
The governance structure, formally named the Materiel Governance Board (MGB), was developed to set commodity council goals and objectives. The MGB serves as the executive sponsors for the commodity council initiative and also are responsible for approving strategies and evaluating the overall performance of the commodity councils against the Balanced Scorecard (BSC). The MGB operates under a set of structured policies and procedures using a series of templates to guide each council in the execution of their analysis and strategies. The MGB is co-chaired by members of the AFMC Directorate of Logistics and Sustainment (LG) and Contracting Directorate (PK). Additional MGB members are located at and represent the three Air Logistics Centers (ALCs). The integration of personnel from each Directorate and across the ALCs enhances the CC's ability to integrate logistics needs with their sourcing activities. This proves to be extremely beneficial in visualizing the commodity strategy from an end-to-end (E2E) perspective.



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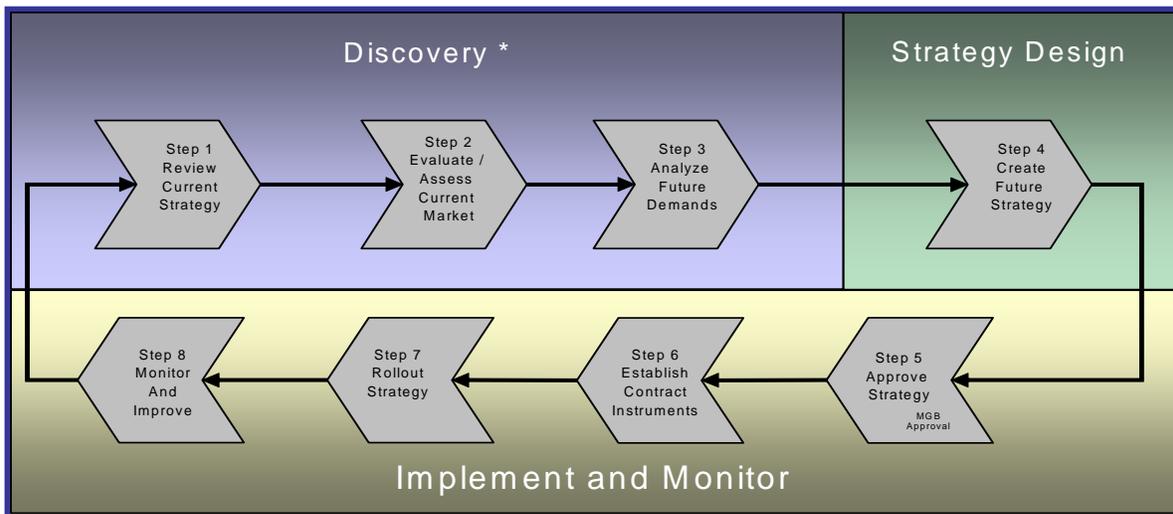


It is the responsibility of the governance process to align CC strategies with CC objectives. The ultimate achievement through this governance model is continuity and consistency in targets and actions for each role, within each council, at each location.



Commodity councils follow an eight step, structured, and integrated process that allows for knowledge management as well as continuous improvement. Each council is comprised of at least ten members with each member filling a position specifically designed to reflect the eight steps of the process. The remaining two positions belong to the Commodity Council Director and Deputy Director (see Figure 1.2). This 8-step process enables commodity councils to achieve their primary responsibilities: Enterprise strategy development, Strategy execution and supplier relations management (see Figure 1.3). Commodity councils operate under a proven process that intelligently encompasses the multiple phases of the Supply-Chain Operations Reference (SCOR) model.

Figure 1.3



The SCOR model contains multiple levels of metrics that measure the performance of a supply chain process. The PSCM initiative has adopted sustainment metrics that correlate directly to the



Balanced Scorecard (BSC) metrics. The BSC metrics however map to the SCOR metrics ultimately providing for a comprehensive series of measurements employed to gauge the efficiency and effectiveness of the program. The commodity councils have adopted specific Key Performance Indicators (KPIs) that align to the sustainment BSC metrics used by PSCM. These benefits are divided into four quadrants:

Warfighter

- Improve supply material availability
- Improve customer satisfaction

Logistics Process

- Reduce overall source cycle time
- Integration of the supply chain end-to-end

Resource Planning

- Cost effective supply chain operations

Innovation and Learning

- Develop a flexible and empowered workforce
- Develop a strategically minded workforce

The commodity councils have adopted the specific KPI to gauge their performance and progress providing a roadmap for achieving their goals. These metrics will be further reinforced using the Balanced Scorecard. It is the intent of the commodity councils to adopt their own Scorecard metrics used for their performance and for measuring supplier performance. The anticipated deployment of the scorecard is for later in FY05.

Mapping Commodity Councils to Supply-Chain Operations Reference (SCOR) Model

The 8-step integrated process operated by the commodity councils primarily focuses on the *Source* element of the SCOR model. However, within the sourcing realm, the process maps directly to three of the core SCOR model metrics. The 8-step process focuses on *planning* out commodity strategies by increasing their commodity awareness and obtaining a demand plan. Once the knowledge is ascertained, the councils *source* their strategies for selecting the preferred commodity suppliers and/or preferred maintenance suppliers. Last, the 8-step process works to *deliver* the products encouraging conformity to the delivery agreements.

SCOR Model – Plan

Commodity council planning is a multi-tiered process that encompasses: project plans, commodity research planning, workforce and resource distributions, forecast plans, demand plans, and strategy execution plans. The planning process starts with the development of an Integrated Master Schedule (IMS) for the execution of the 8-step process. The IMS will govern the overall deliverable schedule as well as timelines for step completions. It is the focus of the planning phase to receive greater input into the market conditions to better prepare the strategy development efforts by serving them with more current and detailed data.

SCOR Model – Source

The sourcing phase involves the development of strategies to appropriately select manufactured products suppliers and maintenance suppliers. The strategies are based on data that is more accurate as a result of the efforts performed by the councils during the planning activities. The councils now become more apt to source and negotiate with suppliers at a reduced cost with a



reduced propensity for issues. Strategic sourcing enables the commodity councils to better represent the interests of AFMC and contribute to the increased return on investment as targeted in the planning activities.

SCOR Model – Deliver

The successful planning and sourcing of supplier agreements paves the way for a smooth delivery of commodities as envisioned by the councils. During the delivery phase, the councils seamlessly work with the suppliers to meet delivery agreements. Each agreement has been laid out and as a result the CCs can realize their on-time delivery percentages and immediately correlated those goals to the targets established using the supplier scorecards. The commodity councils envision improved supplier relations through the deployment and adherence to supplier scorecards. This technique of effective supplier relationship management is one example of the strides made by the commodity councils representing the greater vision of AFMC/LG in striving to become a leading provider of Weapons System components well into the 21st Century!

1.6 Names of the supply chain partner organizations (external) involved in the project. (Includes the number of people involved from each partner organization and the functional category of each).

Table 1.1

Supply Chain Partner Organizations (External)	Number of Persons Involved	Functional Category
International Business Machines Corporation (IBM)	11	Commodity Councils
	2	Change Management
	3	Program Management

1.7 Names of the functional organizations (internal) involved in the project. (Includes the number of people involved from each functional organization and the functional category of each).

Table 1.2

Functional Organizations (Internal)	Number of Persons Involved	Functional Category
AFMC/LG	20	<ul style="list-style-type: none"> • Program Management • Process Design • Training
OO-ALC/CSW	24	<ul style="list-style-type: none"> • Commodity Strategy Development • Commodity Strategy Execution
OC-ALC/CSW	39	<ul style="list-style-type: none"> • Commodity Strategy Development



		<ul style="list-style-type: none"> • Commodity Strategy Execution
WR-ALC/CSW	38	<ul style="list-style-type: none"> • Commodity Strategy Development • Commodity Strategy Execution

Table 1.3

Commodity Councils (Internal)	Number of Persons Involved
Aircraft Accessories – OC-ALC/CSW	15
Aircraft Engines – OC-ALC/CSW	10
Instruments – OC-ALC/CSW	14
Landing Gear – OO-ALC/CSW	12
Secondary Power Systems – OO-ALC/CSW	12
Aircraft Structural – WR-ALC/CSW <small>*Feb. 2005</small>	13
Communications/Electronics – WR-ALC/CSW	12
Support Equipment/Ground Service and Transportation – WR-ALC/CSW	13

1.8 Provide a POC for each supply chain partner (name, mailing address, commercial telephone number, DSN, and e-mail address).

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Section 2 – Implementation (75 Pts)

2.1 Explain why the supply chain initiative was undertaken and how it was selected. (10 pts)

Since the late 1990's AFMC and other Department of Defense (DoD) agencies have employed numerous initiatives to improve Supply Chain support. Different organizations across the ALC's have championed each initiative which has resulted in confusion, authority and accountability issues. Today's posture mandates we effectively utilize our resources to provide the maximum benefit. A key attribute of the PSCM implementation is the stand up of commodity councils. These councils will develop strategies to optimize the procurement of parts and services, and enable logistics support needed to implement an end-to-end view of the supply chain. Commodity councils are a best practice in the commercial environment, as proven at both IBM and Chrysler.

AFMC identified six critical areas that required immediate attention and subsequent remedy. PSCM was tasked to address the six areas and provide solutions. Using a multi-faceted approach, PSCM embarked on a seven year project to improve the following conditions:

1. *Sustainment processes do not meet the needs of the Air Expeditionary Force (AEF)* – The AEF war fighting mission demands agility in purchasing and supply chain management processes at affordable costs. Logistics must evolve with the new global expeditionary doctrine.
2. *Weapons System sustainment costs are impeding modernization* – Reducing total supply chain costs can potentially free up funds for modernization. See Figure 2.1.
3. *Competition from external sources* – Rising costs are opening the door for increased competition from external sources to provide Air Force supply chain management and parts support. Improving performance encourages customers to select Air Force supply operations as their supplier of choice for sustainment.
4. *Increasing pressure to reduce costs and improve availability* – Senior leaders emphasize the need to significantly reduce costs while improving weapons system availability. It is imperative that the AF take advantage of recent advances in technology and processes. The processes may not be broken, but they can be improved!
5. *Loss of Intellectual Capital* – Near-term retirements create the need to enhance workforce skills and provide an opportunity to facilitate process change and multi-skilling
6. *Achieve AFMC goals set by AF senior leadership* – AFMC is calling for a 20% increase in aircraft availability by FY07 and a 10% decrease in Operating & Support (O&S) costs by FY11 Future Years Defense Program (FYDP). These goals are our responsibility!

PSCM got its start as part of the Spares Campaign. Over the next year, PSCM quickly evolved to a more expansive effort encompassing the work surrounding F-100 engines, the C-130, landing gear and auxiliary power units. The F-100 and C-130 efforts though more concentrated, helped to place PSCM onto the agenda of General Lyles. PSCM was able to leverage the efforts for the F-100 onto a larger scale. At the beginning of FY03, General Lyles approved the



establishment of a project team located across multiple AF sites. This team was put in place to develop processes and subsequently define the technology requirements, organizational structure, and the skills necessary to facilitate the processes.

PSCM received an extension to redesign the processes, add new job roles, justify a new technology, develop a comprehensive approach to workforce training, and create a newly organized personnel structure. The PSCM team facilitated an Integrated Process Team (IPT) meeting. The IPT determined that a move to a more commodity centric approach was necessary. The initial findings from three successful PathFinders in FY03, in addition to an approved commodity schema, ultimately steered the IPT towards a commodity centric model. As a result of the IPT, commodity councils, an idea that would be based on the SCOR model was born.

The Air Force faced many issues in their purchasing and supply programs. With the establishment of commodity councils, they hoped to address a few specific issues:

1. AFMC sourcing cycle time for manufactured parts (Demand Planning + Purchase Requisition + Administrative Lead Time (ALT) + Production Lead Time (PLT) averages 660 days
2. 25-28% of all purchase requests (PR) are received by contracting inside the standard PLT, e.g. “need” date cannot be met with the standard PLT
3. Suppliers, including organic repair, are not measured or treated as strategic partners, minimizing the opportunity to reduce costs and improve service
4. 51% of AFMC logistics (LG) and 33.5% of AFMC contracting (PK) professionals are eligible to retire within five years

Commodity councils addressed all of the aforementioned issues. Market research and customer evaluations enabled the councils to reduce the amount of time required for sourcing cycle times by being more informed on the customer and on the product market. With only 25% of purchase requests (PR) being received inside the PLT, commodity councils needed to evaluate and develop comprehensive strategies to minimize the PLT and address issues and barriers that interrupt the natural cycle of activities. Supplier relationships fuel successful transactions, reduce the number of long-term contracts, decrease the contract focal points, and increase the leverage for supplier incentives for improvement. Commodity councils continuously strive to improve supplier relationships thus smoothing negotiations. Last, by training a core of professionals to monitor and perform key roles in the purchasing and supply activities, commodity councils serve as a safety net for turnover activities. The processes, knowledge, and supplier relationships are all sustained with the implementation of CCs. The wealth of tacit knowledge becomes

Key Issues Facing Landing Gear

- 89% of active NSNs had a backorder averaging 3.4 months, over last 3 years
- 58% of active spend was competitive
- Administrative Lead Time (ALT) average -- 134 days
- Production Lead Time (PLT) average --374 days

Key Issues Facing Miscellaneous Aircraft

- 2,639 NSNs: 22 organizations at three ALCs
- 90% of NSNs low demand items
- Administrative Lead Time (ALT) average – 399 days
- Production Lead Time (PLT) average – 915 days

Key Issues Facing Support Equipment

- 80% of the spend was non-competitive
- Historical funding <20% of customer requirements
- Administrative Lead Time (ALT) average – 176 days
- Production Lead Time (PLT) average – 300 days



tangible with the comprehensive documentation and knowledge sharing responsibilities.

Figure 2.1

Commodity Group	Lead ALC	# of CAGEs	Stock #s	# of KT	# KT Actions	Total KT Spend
Aircraft Accessories	OC	369	2,888	1,561	2,213	\$808,865,751
Aircraft Engines	OC	198	2,452	1,066	3,067	\$4,081,653,689
Aircraft Structural	W-R	217	2,008	811	1,171	\$542,980,071
Communications Electronics	W-R	753	8,719	3,246	5,525	\$1,629,478,763
Instruments	OC	526	2,277	1,694	2,156	\$545,389,883
Landing Gear	OO	134	1,024	917	1,158	\$540,576,629
Secondary Power Systems	OO	29	134	108	123	\$386,251,933
Support Equipment	W-R	419	1,668	425	546	\$602,949,884
TOTALS		2,645	21,170	9,828	15,959	\$9,138,146,603

**Figure represents FY00-FY02 Pathfinder Analysis*

2.2 Indicate the duration of the project. Note if the project was a pilot that is being rolled out. Note if the project is ongoing or still in development. (5 pts)

The PSCM project as a whole is a seven-year initiative that will push the Air Force to the forefront in sustainment transformation. Commodity councils represent one element of the PSCM engagement that have been developed and continuously implemented in a rapid three-phased approach. The initiation of the CC establishment effort began in early 2003 with three PathFinders including 1) Landing Gear, 2) Aircraft Equipment, and 3) Support Equipment. These pathfinders led to the further identification of five more commodity councils pushing the number to eight and accounting for roughly \$5 billion in annual sustainment spend (see Figure 2.1).

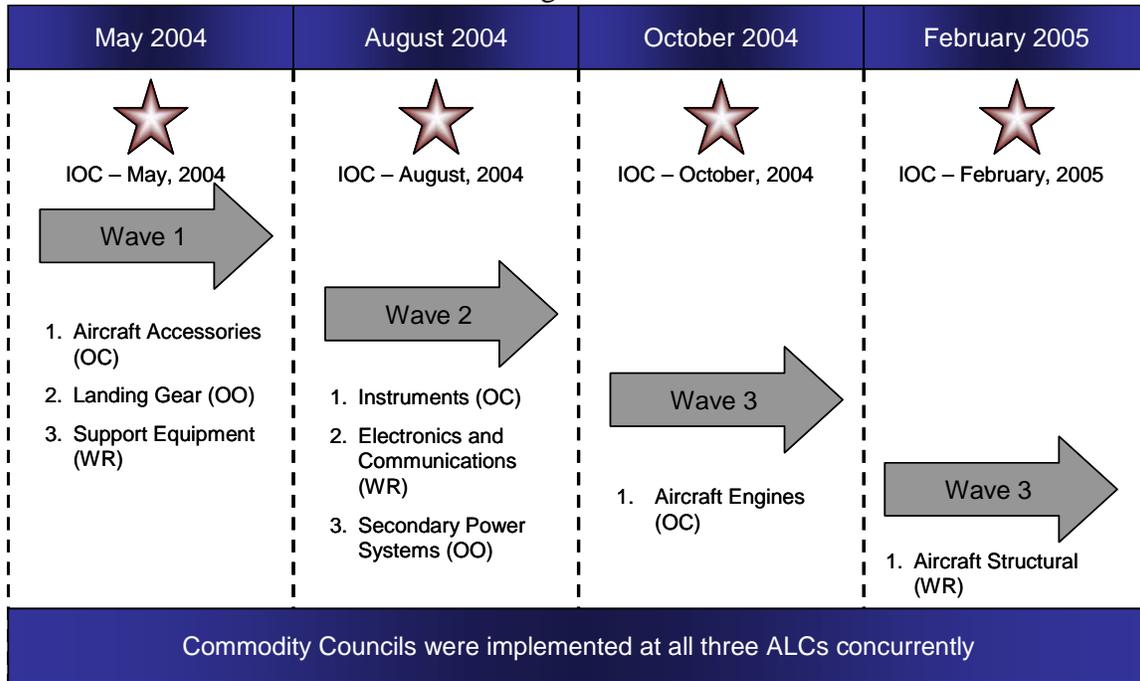
As of February 2005, all eight commodity councils have been stood up and the appropriate personnel trained and readily prepared to conduct business and follow the established commodity council process. The MGB has been initiated with the senior leadership roles populated. There have been three commodity management plans submitted and approved in addition to the four commodity acquisition strategies that have been submitted and approved. The commodity councils are quickly making strides in their efforts to fulfill the expectations set forth by the AFMC. The success of the CCs is proven and documented and the return on investment (ROI) will continue to increase as more contracts are executed, market conditions analyzed and supplier relationships developed, sustained and fostered.

A cross-functional group of commodity councils have been implemented and achieved Initial Operating Capacity (IOC) in the three ALC locations including Ogden, Warner-Robins, and Oklahoma City (see Figure 2.2). The current cadres of personnel making up the councils pursue



excellence within themselves and across the cross-functional spectrum. As the commodity councils continue to expand their roles, conduct and complete all training programs, and improve the purchasing power of the AFMPC, they will proliferate throughout the various military organizations, defense organizations, and beyond!

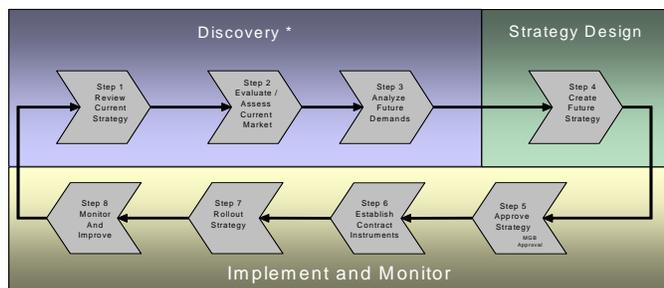
Figure 2.2



The commodity council implementations have been completed in February of 2005, however, the activities and responsibilities will continue to grow as contracts come up for renewal. For all of the CCs that have reached IOC, contract and supplier relationship management (SRM) development activities will follow the newly defined and structured eight-step process resulting in a more commodity centric and customer focused approach to purchasing for the AFMPC. Suppliers are and will continue to be held accountable for their product and services. Relationships are developing and sustaining with key vendors in order to cycle times, improving pricing agreements, and ensuring greater on-time delivery performance. Present and future suppliers will be held responsible for timely delivery and graded against a scorecard that will be fully deployed this year!

2.3 Describe, in detail, the process used to complete the initiative. (15 pts)

The Commodity Council Initiative strictly followed the structured 8-step process that was adapted from a proven commercial model. AFMPC/LG has adopted the process and broken it down to specifically address the needs of the organization. Focusing within three primary phases, the 8-step process is divided into the Discover Phase, Strategy Design Phase, and the Implement and Monitor Phase.





Prior to initiating the 8-step process, commodity councils needed to be fully trained in the process. Each commodity council member underwent a week long training regimen. The training regimen broke down each process step, analyzed the step, determined the purpose and focus of the step, activities surrounding the step, and expected results realized by properly executing the step. This comprehensive training regimen supplied each council member with a firm foundation of “why” and the necessary tools to perform their respective responsibilities. This training course, delivered by commodity coaches and their equivalent subject matter experts has already been completed by over 200 key personnel!

Discovery – **the three process steps in this phase run concurrently*

The first 3 steps in the commodity council 8-step process are commonly known as the “Discovery Phase.” Upon completion of the “Discovery Phase” the commodity councils should be able to answer questions such as: “What is our current procurement strategy?”, “Has our strategy been effective in the past?”, “How has the market for our commodity changed?”, and “How will it change?”, “What do I need to do today, to prepare for tomorrow?” The answers to these questions require an in-depth analysis of current and past strategies, market research and commodity centric research, as well as future demand analyses, all of which are found in steps 1 through 3.

The first step in the 8-step process is to Review the Current Strategy. In this step, they must review how purchasing and supply activities have been conducted in the past and present. The councils conduct extensive requirements gathering activities including interviews, information research, and working group sessions to clearly understand the current methods. This detailed analysis, coupled with the next step of the process provides a firm foundation of data that the commodity councils can leverage during their new strategy development.

The commodity councils must clearly identify the current operating strategy for purchasing and supply activities. However, during the Discovery Phase, they are simultaneously performing research on the current market environment to better understand the suppliers, suppliers’ needs, emerging suppliers, commodity placement in the market, as well as demand forecasts. This critical information provides the councils with greater purchasing power because they know more about the product, who supplies the product, and the value of the product.

Concurrently performed with the two previous steps, CCs are conducting detailed analysis on previous spend distribution, National Item Identification Number (NIIN) distribution, forecast distribution, amongst other commodity elements that will ultimately enable the councils to better understand the future demands of the customer and supplier. Future demand analysis coupled with the market research and a clear understanding of the current strategy fulfills all of the informational requirements the councils need to develop an effective and comprehensive new commodity strategy. *(Please refer to Attachment 1 to see the results of the NIIN, Spend, Forecast, Supply, Repair, and New Acquisition analysis. This analysis, conducted by the Aircraft Accessories Commodity Council represents only a percentage of the research conducted by the councils.)*



Any process that requires change (process, people, technology) will meet a certain amount of resistance. The hardest part of any project is supporting and preparing the people as they go through changing their processes and adapting to the new job roles. To address the resistance issue, a comprehensive change management program was integrated into the CC approach. These activities were targeted specifically at managing the organizational risk through the use of proven methods, tools and techniques. The comprehensive approach addressed the following issues:

- Change is a disruption of basic expectations. Everybody has a personal and individual response to change
- Individuals and organizations rarely attempt significant change unless there is a compelling reason to change
- Sponsors, agents, and targets are key roles that must be created, organized, and performed for organization change to be successful
- Organization performance depends on how well an organization integrates its people, processes, and information technology

Our targeted approach identified and mobilized stakeholders (those affected by the change). This effort included stakeholder management activities, communication strategy/planning, and education/training activities. As a whole, the commodity council individuals were better prepared to take on new responsibilities and perform in their new role(s).

Prior to the standup of the councils, a risk mitigation system was put in place to help overcome resistance to change wherever it may arise. A tracking system has been in place that facilitates the presentation of such barriers and impediments to senior leadership. This conduit from the commodity council management exhibits the open communication that is necessary for such problem resolution. In addition, issue tracking each step of the process underscores the importance of documenting such resistance. The last section of each step of the process requires that the commodity councils document their barriers and impediments.

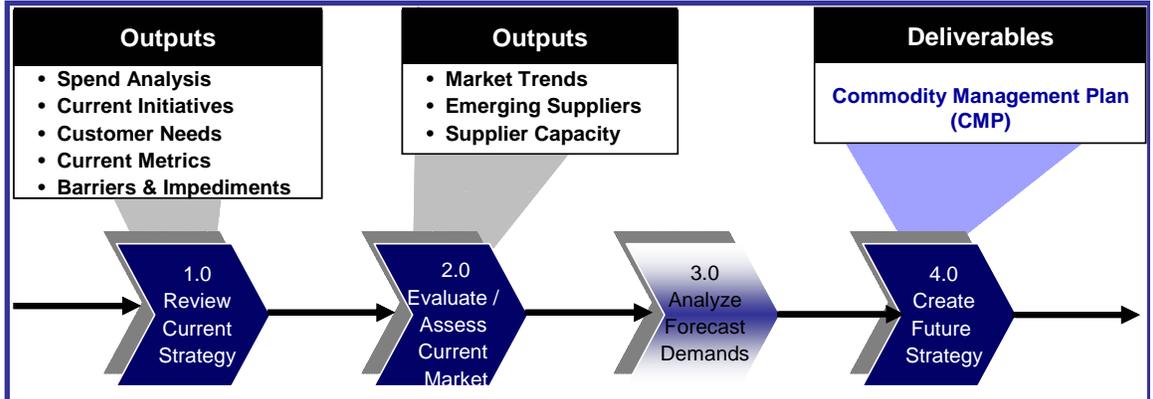
Strategy Design –

Step 4 of the commodity council 8-step process is Create Future Strategy. Step 4 in many respects takes the questions and answers from the “Discovery Phase” and leverages them into the creation of an overall Commodity Management Plan (CMP). Armed with an extensive collection of data surrounding their commodity, the commodity council refocuses their perspective by shifting from researchers to strategists as they begin to develop strategies.

The first four steps of the process produces a series of outputs (see Figure 2.3). Two key deliverables are created during the Strategy Design phase, the Commodity Management Plan (CMP) and Commodity Acquisition Management Plans (CAMPs). While several CAMPs are developed, the CMP is the guiding principle followed by all councils to effectively perform their responsibilities.



Figure 2.3



Commodity Management Plan (CMP) – The culmination of the “discovery phase” is the development of the Commodity Management Plan or CMP. The CMP provides a broad management plan for the council’s respective commodity centric strategies. Included in this plan is spiral (strategy) prioritization, estimated time of completion for submission of the first CAMP, as well as evidence that supports commodity council assertions. The development of spirals helped the councils to efficiently direct their efforts based on opportunities for improvement and near term ROI realizations. The CMP development approach carefully splits the scope of the plan into manageable sections. This better enables the councils to address all needs, existing and emerging, and provides flexibility in compensating for data constraints. Upon completion and approval by the Materiel Governance Board (MGB), the next phase of planning begins, CAMP development.

Commodity Acquisition Management Plan (CAMP) – Working within the framework established by the CMP, commodity councils develop detailed commodity acquisition management plans (CAMPs) to execute strategy. CAMPs are developed for all identified spirals. CAMPs provide extensive detail for a chosen spiral as well as the specific execution plan with milestone dates for its completion. They span the first four steps of the 8-step process and baseline current performance measurements for each spiral. The also define strategies for each spiral while taking into account certain values and risks. The CAMPs contain defined key performance indicators (KPIs) that serve as a baseline measurement for the spirals. The CAMPs also ensure the proper goal alignment between the spirals and the AFMC and PSCM goals. Each CAMP requires the official approval for implementation and use by the MGB.

CMPs and CAMPs are connected in a variety of ways that help to maintain consistency and continuity throughout the process. The CMP defines the commodity profile and helps to explain the commodity dynamics. The CMP also provides the rationale behind spiral recommendations. The CAMP breaks down the commodities by spiral, evaluates each spiral, and establishes baseline measures for each spiral based upon the CMP rationale. Each deliverable covers the first three steps of the process with the CAMP development representing completion of the fourth step. The two plans together set the foundation of knowledge for each commodity and provide the councils with thorough, documented analysis and strategies to leverage for more manageable supplier agreements and improved purchasing prowess.



Implement and Monitor –

Upon successful completion of Step 4 and subsequent approval of their CMP by the Materiel Governance Board (MGB), each commodity council puts their strategies to work. Steps 5-7 involve a further clarification of their proposed management plans. This involves the creation of Commodity Acquisition Management Plans (CAMP). Unlike the CMP, the CAMPs go into specific detail for the strategies for each respective commodity. Often time’s larger commodities may employ a number of distinct strategies known as “spirals” to achieve full coverage. For each spiral developed, a CAMP is developed in parallel that dictates scope, reasoning and the timeline for execution. Figure 2.4 depicts the anticipated spiral savings paying close attention to the considerable reduction of contract numbers. Figure 2.5 also anticipates a 5% reduction in MICAP hours. This anticipated ROI is reflected in the consolidation of contracts by each supplier reducing contract disparities and therefore improving on-time delivery. These realizations shorten the sourcing cycle time therefore reducing the amount of time necessary to obtain a part or repair. It is noted that the Return on Investment (ROI) will be realized over time and not immediately.

Figure 2.4

Spiral	MCR*	MICAP Hrs**	NIINs	Contract Consolidation
Hamilton Sundstrand	\$ 6.8M	27,530	139	From 140 to 1 contract
Boeing	\$ 0.7M	17,237	33	From 2 to 1 contract
United Technologies	\$ 0.6M	74,310	73	From 12 to 1 contract
Parker Hannifin	\$ 2.6M	163,656	125	From 66 to 1 contract
Honeywell	\$ 3.3M	122,803	172	From 66 to 1 contract
Comp. Contract Repair	\$ 0.9M	5,096	104	Not Applicable
OC-ALC/MA	\$ 2.4M	147,115	279	Not Applicable
Total	\$ 17.3M	557,747	925	From 286 To 5 contracts

* Conservative 3% Material Cost Reduction (MCR) based on FY01-03 Spend
** Estimated 5% reduction in MICAP Hours

*Initial seven spiral strategies from Aircraft Accessories approved CMP

Once the CAMP has been completed for a specific spiral, the commodity council again refocuses their efforts to implement the contract vehicles necessary to successfully implement their strategy. This step requires special attention to lessons learned from the “Discovery Phase” as well a strict adherence to the guiding principles set forth in their CAMPs. Arguably this is the most important phase of the 8-step process as it requires the most change and can lead to the most resistance. Traditional roles in the contracting process are often changed and responsibility for the overall product is equally distributed amongst the members of the council. This dynamic, which creates a sense of ownership in the final product, is beneficial for all involved.



After the contract is in place the commodity council must now ensure its success through close monitoring and supervision. There are more questions in Step 7 and 8 similar to the Discovery Phase such as:

“Has our strategy been successful?”

Determining the success of any given strategy depends on the variance of the current environment post strategy implementation versus the baseline established in Step 1 “Evaluate Current Strategy”. Using approved “key performance indicators” (KPIs) as well as the AF Balanced Scorecard, the commodity council has a good read on the impact of a given strategy. Supplier Scorecard KPIs become valuable tools for monitoring success in steps 7 and 8.

“Are we reaching a satisfactory level of compliance?”

Compliance with a strategy is one of the commodity councils’ biggest hurdles. A powerful message or a good idea if not properly conveyed or understood is worthless. As many of these contracts require complex relationships with customers and suppliers, there are many levels of responsibility in the success of a newly created commodity council strategy. However, the commodity council is not alone in this task. Supporting the council are numerous workstreams put in place to ensure compliance and customer satisfaction. One such organization is Customer Relations Management (CRM) which will support communication between the commodity council and customers affected by its strategies. Facilitating communication with the suppliers falls under the purview of both Supplier Relations Management (SRM) and Strategic Supplier Relations Management (SSRM). These workstreams, while directly interfacing with the commodity council, allow for enterprise considerations to be entertained as they will interface across ALCs.

Lastly, the commodity council 8-step process, while iterative in nature, reflects a continuous improvement model. Once implemented no strategy flourishes eternally and re-evaluation is necessary to achieve continual success.

2.4 Identify significant challenges encountered, the process for resolution, and the solutions. Identify any best practices employed or developed. (10 pts)

2.4.1 Significant Challenges Encountered During Implementation

There were three primary challenges that faced the implementation teams. It became apparent that three “key” transformational elements needed to be incorporated into the solution. With any implementation comes a great change management requirement. While this implementation required a strong change management element, the implementation endured minimal impact due to the proper preparation and seamless methodological approach incorporated into the effort. In addition to the change management component, the teams were faced with geographical dispersion amongst the participating ALCs and HQ AFMC. With teams deployed to each site, it was essential to the success of the initiative to establish clear channels for communication. The glue that kept the entire effort together was the Materiel Governance Board (MGB). The approval necessary for major decisions required a panel of upper level personnel with deep experience.



Challenge #1 – Change Management – Thinking “Outside of the Box”

The team understood that migrating logistics and contracting workforce from a tactical to a more strategic focus would require the personnel to “think outside of the box”. This is a concept that varies from the more direct and guided thought processes employed to date. Commodity councils require an analytical mindset to support activities including spend analysis, requirements analysis, issues/root cause analysis, strategic sourcing based on entire AFMC sustainment spend, supplier market knowledge, supplier relationships, and more.

Solution #1 – Institute a New Way of Thinking

To preclude the implementation from faltering due to resistance, the team includes a change management module as part of a significant training regimen delivered to commodity council members. During the one week commodity council training program, a change management subject matter expert defines change management and the approach to effective change. The training emphasizes obtaining change leadership and sponsorship, ensuring clear communications through a defined communication strategy, the process and requirement for organizational transition, issue analysis and management practices, and the continuous provision of training. The continuous provision of training is now in the process of expanding into a more robust 12-week training regimen that will be delivered to all commodity council staff. This training regimen will conduct real life scenarios, focus deeply on case studies, deploy common processes and an overall approach to CCs, and result in a better prepared team of council members further enhancing the opportunity for greater ROI. It is evident that change is difficult for everybody, but the commodity council initiative incorporates a comprehensive strategy to managing effective change.

Challenge #2 – Geographical Dispersion – Eliminating Cross-Functional Barriers

AFMC-wide commodity councils required active collaboration and integration among four highly autonomous, geographically dispersed sites - HQ-AFMC, Ogden (OO-ALC), Oklahoma City (OC-ALC), and Warner-Robins (WR-ALC). The teams needed strategies that would reflect the spend of all three ALCs, which requires tight ongoing communication across the sites. The teams needed to address the requirement to capture unique requirements across the centers and weapon systems. They required the bridging of knowledge and responsibilities as well as the ability to obtain approval from authorities at each site (represented in the MGB governance structure). Last, and most important, the commodity councils now required increased leverage of AFMC-wide spend.

Solution #2 – Adoption of a Communication Plan

For the commodity councils to overcome the geographical dispersion they faced with the three involved ALCs and HQ AFMC, they needed to adopt a communication plan and receive commitment and support for the plan. The teams diligently worked and gained the significant engagement of key people from each site every step of the way. The communication strategy provided multiple mediums for delivering CC progress and success stories. The Knowledge Now Portal located on the AFMC Intranet contains a Commodity Council Community of Practice (CoP) where CCs can post documents and deliverables for dissemination throughout all three ALCs and AFMC. Bi-weekly “HotWires” are distributed via email and posted to the CoP announcing recent achievements by the various CCs. “Meet me calls” are being conducted to discuss the scope of activities being performed and pursued by the commodity councils. There is



no shortage of communication opportunities between the councils and for the general public of AFMC. The adoption of this comprehensive communication plan has eliminated the distance between ALCs and AFMC and has resulted in a full integrated and cross functional program of commodity councils

Challenge #3 – Who Is Going to Approve This?

The eight commodity councils required an approval chain to manage their decisions and assure a level of accountability for their actions. With no structure in place, their decisions would lack the necessary review from the senior leadership. The individual actions needed to be tracked and their performance needed monitoring from a holistic standpoint, not just per each commodity group. It was evident that a Governance structure would be needed.

Solution #3 – Establish a Materiel Governance Board (MGB)

To demand accountability from their suppliers, there needed to be an internal accountability at the CC level as well at a higher lever. Using a surrogate model for the Air Force, adapted based on the Chief Procurement Officer (CPO) best practice approach, which is proven within leading companies in industry, a Materiel Governance Board (MGB) was developed to provide a holistic viewpoint to the actions and strategies being used by the CCs. The MGB is composed of Contracting (PK) and Logistics & Sustainment (LG) personnel as well as from senior personnel at the three ALCs. The MGB, while governing the commodity councils, establishes goals, reviews and approves strategies, approves CMPs and CAMPs (four to date), monitors the execution of the strategies, and ensures the proper alignment of CC goals and targets to the Balanced Scorecard and AF goals. The MGB not only serves in an executive capacity, but allows input and suggestions for enhancing the capabilities and functionality of all commodity councils.

2.4.2 Best Practices

Commodity Centric Model – **A Commercial Sector Best Practice!*

We at AFMC/LG are striving to become a world class procurement organization. We are driving towards becoming an industry leader and supplier of choice well into the future. It was therefore necessary for us to evaluate our current procurement strategy and seek out support in creating a more innovative and technological strategy.

Using IBM and Chrysler's successful commodity centric formula, AFMC/LG has adopted a commodity centric approach to procurement that provides innovation, quality, accountability, improved customer support, and improved supplier relations. AFMC/LG identified four primary objectives in pursuit of an effective commodity centric model:

1. Achieve high customer satisfaction. To enable this objective and obtain actionable results, we are focused on becoming proactive in our procurement pursuits.
2. Achieve greater leverage in the competitive procurement environment.
3. Speed up the processes to meet the demands of the 21st century.
4. Share these new objectives with our customers.

In order to satisfy our customers, we needed to have a deep understanding of the supplier environment. It was critical for the commodity councils to research and understand the market



trends, segment their suppliers, and better understand their suppliers' capabilities. The commodity councils conducted two strategy supplier meetings to develop a sound competency surround their suppliers' abilities. This resulted in a clear identity associated with each supplier. The CCs could understand the supplier priorities. All of this new knowledge enables the councils to harvest better understanding of their customers and more importantly, their customers' needs.

The commodity councils had to get involved in the procurement early. They needed to leverage their newly obtained knowledge but continue to expand as the market conditions fluctuate and change. The adoption of simplified and standard processes by all councils provided an edge for the councils in the procuring environment. Each council prepared the same way, negotiated the same way, and worked to meet their objectives the same way. The standard process resulted in a clearly understood roadmap that enabled forecasting out 18-24 months. The commodity councils are now a step ahead of the curve and can actively prepare for future procurements.

The next objective facing us at AFMCLG was the need to be seen as the technical leaders for procurement. We needed the infrastructure to enable a sharing environment. The sharing environment required the sharing of business goals with their suppliers. It required open and constant communication channels. This environment needed to create end customer visibility. The CC's are representing their technical savvy to the customer. They are engaging the customer and leveraging these relationships to obtain competitive information. Commodity councils are now operating off of a technical roadmap.

Last, the procurement improvement strategy had to achieve increased morale and effectiveness from within. This new way of thinking resulted in simplified processes leveraging a common understanding by all involved. It demanded a balance of skills and sharing of resources. This method again focused on communication, but this time internally. The councils agreed to a standard set of processes and a standard toolset to work off of. They continue to conduct training and are currently anticipating the arrival of a more comprehensive, a more detailed, and a more advantageous PSCM-wide 12-week Immersion Training Program. They are continuing to expand their communication plan by developing additional mediums for sharing news, successes, and lessons learned. Commodity councils are working together in a seamless environment.

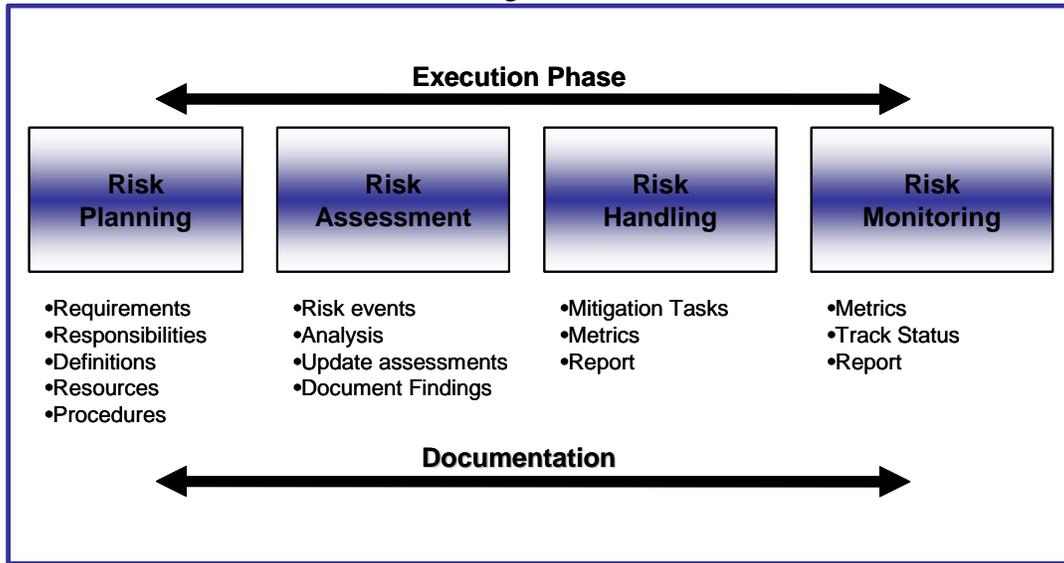
AFMCLG has pursued a commodity centric model and has established and operationalized all eight identified commodity councils to date. Under the new model, adhering to a new strategy, AFMCLG will become a worldwide leader in supplying Weapons Systems components.

Risk Management Process

The implementation teams for each commodity council incorporated a comprehensive four-step approach to managing risk (see Figure 2.5). The first action requires planning for the potential of a risk occurrence. Risk planning involves proactively identifying potential risks and their inherent detriment. It is important then to safely document all potential risks and keep them for future reference.



Figure 2.5



If a risk does in fact occur, it requires immediate attention. First, the council must analyze the risk, determine its source, and establish next steps to mitigate it and prevent it from causing further harm. Upon identifying and analyzing the risk, the council must then handle the risk. By handling the risk, the CC can monitor it and determine if there is still the potential for detriment or if it is under control. Once controlled, the CC will periodically monitor the risk until complete dissolution. Once dissolved, the risk documentation is closed and stored.

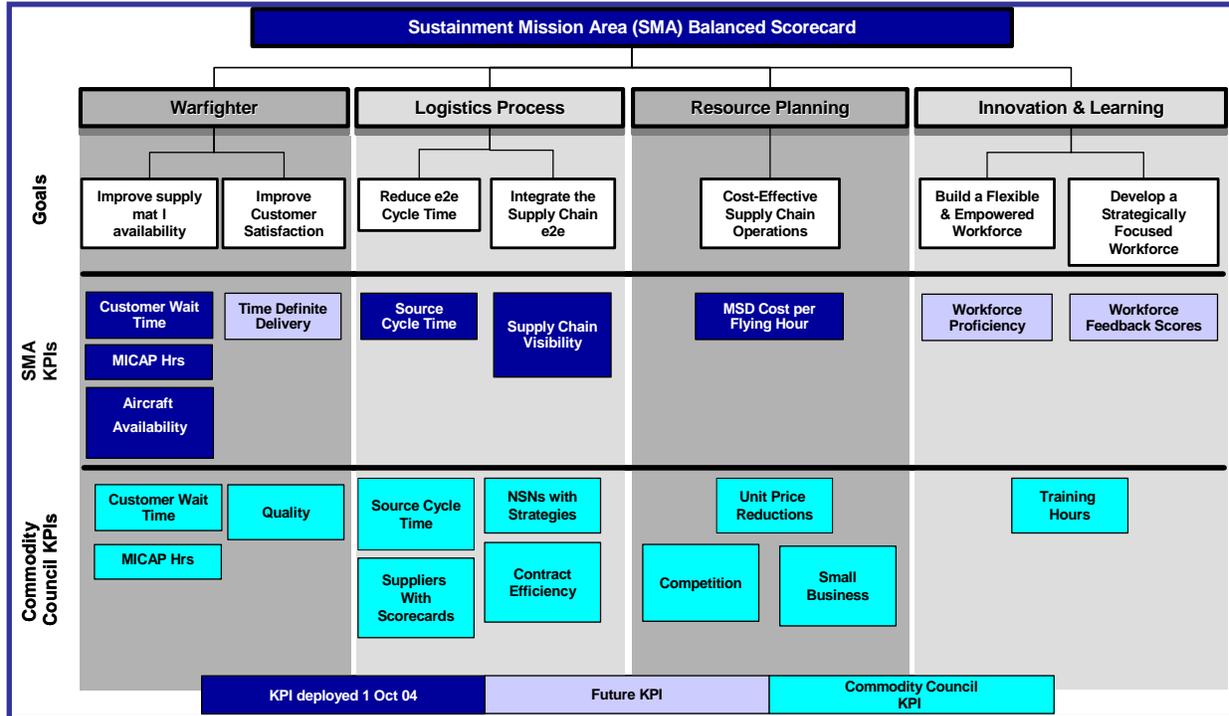
Under this process, CCs effectively plan for the risk, assess or evaluate the risk, handle the risk, and then monitor the risk to ensure no further harm can be inflicted. This process preserves the efforts during the implementation and is maintained for use throughout the life of the council.

Balanced Scorecard

The AFMC utilizes a Balanced Scorecard (BSC) to measure their performance (see Figure 2.6). As defined by its founders “The Balanced Scorecard translates an organization’s vision and strategy into a comprehensive set of performance measures, within a framework, for strategic measurement and management”. What does that mean for commodity councils, well, quite simply, it provides them with several categories and metrics or key performance indicators (KPI) to capture and document progress. At an enterprise level, the Scorecard enables AFMC to monitor their performance against expected targets. Specifically, the Air Force expects to see the benefits of the BSC result in a 20% increase in Weapon Systems Availability, a 20% decrease in supply chain costs, and a 50% decrease in sourcing cycle time. Because of the importance of the BSC, the PSCM initiative has adopted it and insisted that each of the six activities establish measures to monitor their progress.

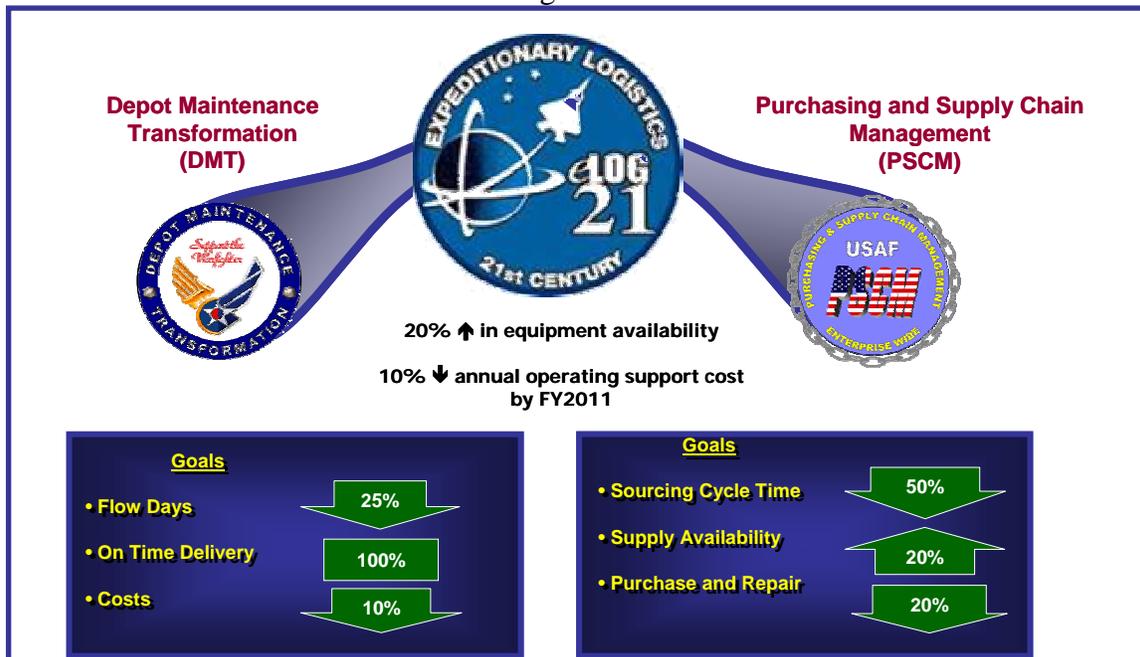


Figure 2.6



The Commodity Council Initiative also directly correlates to the greater Expeditionary Logistics for the 21st Century (eLog21) goals. Both the PSCM effort and the Depot Maintenance Transformation (DMT) effort fall under the objectives of eLog21 (see Figure 2.7). The goals and metrics established as part of the eLog21 effort, aligned with the BSC metrics, reinforce the aggressive approach to transformation undertaken by the AFMC.

Figure 2.7





The commodity councils are in the process of aligning themselves with the AFMC and PSCM Balanced Scorecard. They have identified key performance indicators that they will measure their performance with and will continue to do so over time. These KPI, individually important, all feed up to ensure that the activities of the commodity councils fulfill the ultimate goal of making the AFMC more readily capable to provide Weapons Systems components faster, cheaper, easier, and on-time.

2.5 Indicate the metrics used to measure progress and success. (5 pts)

The Purchasing and Supply Chain Management Commodity Council Initiative is an ongoing effort that has produced immediate results. However, it is important to focus on the future state for AFMC LG in our pursuit of becoming a worldwide leader for providing weapons systems components. Commodity councils have been implemented to reduce lead times substantially. CC's anticipate ROI in the following areas:

1. Anticipated reduction in total sourcing cycle time from 660 days by 50%!
2. Expected to produce an increase in the number of available National Stock Numbers (NSN) on contracts in an effort to improve the overall availability of materiel.
3. Intended reduction in administrative costs by reducing the number of contracts with each supplier. This will be accomplished by consolidating contracts with each supplier.
4. Expected reduction in inventory costs by improving the pipeline.
5. Anticipated significant reduction in unit costs as adopted and promised by senior leadership.
6. Reduction in the number of product configurations (i.e. purchasing different versions of the same product)*.

*One example of a reduced number of configurations has already been realized. Oscilloscopes, which provide a basic measure of amplitude and time, currently have a duplicate inventory supply. Oscilloscopes operate in both analog and digital, both of which are used by the Air Force. However, analog models are becoming obsolete with the advancements in technology and the AF is now faced with migrating to all digital models. The Support Equipment Commodity Council, operating from WR-ALC conducted extensive market research and devised two purchase descriptions that will replace over 190 oscilloscope configurations currently in the AF inventory. The high end model will replace 20 NSNs and the lower end model will replace an astounding 172 NSNs. Moreover, it has been discovered that the number of manufacturers capable of providing the new oscilloscopes is two or three. The Support Equipment Commodity Council developed and proposed a strategy for replacing the oscilloscopes and has earned the distinction as becoming the first council to receive approval by the newly established Materiel Governance Board (MGB).

The overall success of the commodity councils is focused on the structured 8-step process that mandates a thorough analysis for all contracts for all commodities. One current measure of progress is reflected in the completion of all eight commodity council implementations in less than one year!



Table 2.1

Proposed Commodity Council Balanced Scorecard			
Metric	Source System	OPR	Target (Y/N)
Source Cycle Time	D200/J018	AFMC LG & CCs	N
NSNs w/Strategies	Manual	AFMC LG & CCs	N
Suppliers w/Scorecards	Manual	AFMC LG & CCs	N
Unit Price Variance	J018	AFMC LG & CCs	N
MICAP Hours	AFKS	AFMC LG & CCs	N
CWT	LOGPAS	AFMC LG & CCs	N
Contract Efficiency	J018	AFMC LG & CCs	N
Training Hours	Manual	AFMC LG & CCs	N
Competition*	Manual	AFMC LG & CCs	N
Quality*	Manual	AFMC LG & CCs	N
Small Business*	Manual	AFMC LG & CCs	N

Moving forward, commodity councils will further adopt and adhere to the strict standards measured by the CC Balanced Scorecard (see Table 2.1). Each council will gauge its performance against a minimum set of core metrics. These metrics reinforce the intentions of the AFMC/LG to become a worldwide leader in purchasing and supply chain management activities by providing a top-down driven strategy following enterprise-wide supply chain business rules. The BSC prompts AFMC to be more customer-centric and demands complete organizational buy in for benefits realization.

2.6 Document and quantify cost and performance benefits, including the projects return on investment and changes in the value of one or more of the SCOR Level 1 metrics (not all metrics must be captured or reported). (15 pts)

Commodity council benefits are realized from the aggregate benefit of addressing high priority performance issues across multiple ALCs. All eight of the commodity councils have been stood up and are working currently in different phases of deployment depending upon their Initial Operating Capacity (IOC) date. A few of the councils have completed their CMPs and are identifying spirals, others are working on their CMPs, a few are still in the analysis phase and one is finishing up the personnel training program.

SOURCE – Processes that Procure Goods and Services to Meet Planned or Actual Demand

The primary focus of the Commodity Council Initiative lies within the boundaries of the SCOR Sourcing metric. Located at OO/ALC, the Landing Gear Commodity Council has set aggressive targets to reduce the number of existing long-term contracts of sole-source landing gear components (Spiral #1). Additionally, they have set out to create multi-award ID/IQ streamlined acquisition contracts for all competitive landing gear components (Spiral #3). These two sub-projects will greatly streamline and simplify all contracting activity by reducing the



communication strain and manpower dedication necessary to maintain hundreds of sole-source contracts. It is noted that the benefits depicted in the tables below reflect the great work of the Landing Gear Commodity Council operated at Hill Air Force Base in Ogden, Utah. However, all of the CCs are realizing similar benefits and earning success stories similar to Oscilloscope Story owned by the Support Equipment Commodity Council operated at Robins Air Force Base in Warner-Robins, Georgia.

***MICAP Hours:** MICAP hours represent the total hours an aircraft is grounded for lack of a spare part. For every day during the month the requisition is unfilled 24 hours are assigned to the requisition.

Table 2.2

	Baseline		Goal		Result	
	Spiral #1	Spiral #3	Spiral #1	Spiral #3	Spiral #1	Spiral #3
Reduce MICAPS						
- Average Number of Months Over a 2 year Time Period	7	329	<7	< 250	(> 1%)	(> 25%)
- Average Number of Hours Over a 2 Year Time Period	1,244	55,123	<1,244	< 42,000	(> 1%)	(> 25%)

**Landing Gear Commodity Council (OO-ALC)*

Another important improvement that the Landing Gear Commodity Council is working towards is the overall reduction in Source Cycle Time required to identify a requirement and have it delivered. With average Source Cycle Times exceeding a year in duration, the CC identified two key component areas of the cycle that could be simplified therefore resulting in a considerable reduction of time and effort. By lowering PLT and ALT, mostly through technology and a strict adherence to the approved process structure, 25% reductions in the overall source cycle time are anticipated.

***Source Cycle Time:** The time required for the supply chain to react to an identified requirement from the Source of Supply, until the part is delivered to the Source of Supply starting at the asset cut-off date.

Source Cycle Time: Calculation Formula:

- *For Buys:* Supply Processing Time (SPT) + Administrative & Production Lead Time (ALT/PLT)
- *For Repair:* the sum of the Depot Repair Cycle Time – This includes the time while In-Transit to and from the shop

Table 2.3

	Baseline		Goal		Result	
	Spiral #1	Spiral #3	Spiral #1	Spiral #3	Spiral #1	Spiral #3
Source Cycle Time						



Purchasing & Supply Chain Management (PSCM) Commodity Councils
4/5/2005



- Average ALT Days	140	125	1 - 20	1 - 20	(85%-99%)	(85%-99%)
- Average PLT Days	350	378	350	< 285	-	(> 25%)
Totals	490	503				

**Landing Gear Commodity Council (OO-ALC)*

A very important metric and one that reflects perfect order fulfillment, Customer Wait Time (CWT) represents the periodicity between order submission and order reception. CWT directly correlates to another measurement, customer satisfaction, which directly correlates to being considered a preferred supplier. With a customer centric approach to procurement LG has a vested interest in CWT. Once again, the Landing Gear Commodity Council located at OO-ALC has spearheaded this effort to reduce the overall CWT.

***Customer Wait Time (CWT)** -The average number of days accrued from when a customer orders a spare part until they receive the part

Table 2.4

	Baseline		Goal		Result	
	Spiral #1	Spiral #3	Spiral #1	Spiral #3	Spiral #1	Spiral #3
Customer Wait Time						
- Average CWT Days	6	6	1 - 3	1 - 3	(50%-80%)	(50%-80%)

**Landing Gear Commodity Council (OO-ALC)*

A key metric whose responsibility has been adopted by LG leadership is the effort to realize Unit Price Reductions. A Commodity Centric Model focuses on obtaining the best possible price for the commodity through the best contract ensuring proper and on-time delivery. By negotiating and securing a lower price, especially when commodities are procured in the thousands, represents a noticeable saving that can be redirected to more appropriate needs. Reducing unit price correlates directly to the procurement of goods to meet planned and actual demand.

***Unit Price Reductions:** Difference between current price and former price

Table 2.5

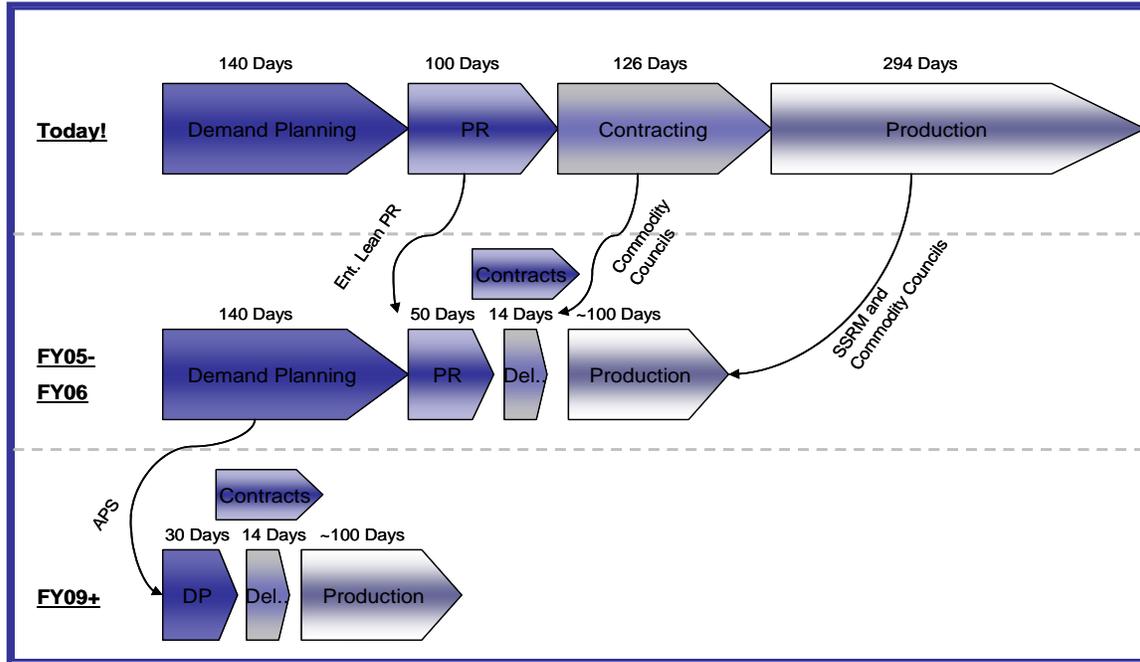
	Baseline		Goal		Result	
	Spiral #1	Spiral #3	Spiral #1	Spiral #3	Spiral #1	Spiral #3
Unit Price Reduction						
- 3 Year Forecast	\$52m	\$91m	\$49m- \$51m	\$86m- \$90m	(\$1m - \$3m)	(\$1m- \$5m)

**Landing Gear Commodity Council (OO-ALC)*

The Commodity Council Initiative required a great deal of cost and performance analysis to formulate a baseline measurement for progress and savings. Analysis was conducted focusing on the FY01-FY03 timeframe for Spend, Number of Contracts, Contract Actions, Number of NSNs per Contract, and ALT Cycle Time. It was recognized that commodity councils also have a large impact on contracting and PLT. Below, (see Figure 2.8), depicts the anticipated cycle time reductions as a result of each commodity council abiding by the 8-step structured process. Additional analysis and forecasts are broken down in the Attachment.



Figure 2.8



2.7 Outline how the success of this effort supports the organizational objectives described in Section 1.3. (15 pts)

AFMC LG Organizational Objectives

The AFMC/LG established the requirement to provide the services and support necessary to effectively supply Weapon Systems components. LG maintains that it will “exceed customer expectations, provide the most cost-effective, timely and flexible logistics products and services in the 21st century.” General Gregory S. Martin, AFMC Commander, established a clear and direct objective for the AFMC to provide, “War winning capabilities, on time, on cost”. AFMC/LG proudly operates under General Martin’s objective and the Commodity Council Initiative is one way we are meeting that objective. From the Office of the Secretary of Defense (OSD) down to the Air Logistics Centers (ALCs), throughout the chain of command, each department and/or organization has their goals aligned with both superior and subordinate partners.

Commodity councils have realized immediate successes. They have created and adopted a standardized process and a standardized toolset. The process is now documented in the Commodity Council Process Guide that will soon become AFMC/LG policy. Commodity councils have set ambitious goals heading into FY05 including participation in a comprehensive 12-week immersion training program being conducted for all PSCM and AFMC/LG personnel. The councils are realizing immediate benefits from their efforts in less than a year since their inception. They are clearly and confidently transforming purchasing and supply chain activities for the future!



What is necessary to support the organizational objectives?

It is extremely critical for the AFMC to possess confidence in their purchasing and supply chain management activities. It is incumbent on the organization to research and understand the commodities and their market environment, supplier base, customer needs, obstacles, and the demand forecast. Once obtained, this data must be stored, kept up-to-date, and disseminated appropriately.

There must be accountability held by the suppliers to meet the needs of the customer and/or end users. It is crucial to long term purchasing objectives to develop and maintain supplier relationships. These relationships help garner trust, effective and efficient performance, negotiation flexibility, and a shared understanding of the large scale importance of each contract. Commodity councils are the sole means of meeting these objectives.

Do commodity councils support organizational objectives?

Commodity councils have been implemented at the three ALCs. HQ AFMC has deployed the infrastructure surrounding the commodity councils and provided the communication mediums necessary to enable a cross-functional and integrated environment. Each individual council is responsible for cornering the market on a series of commodities and to procure them in a cost-effective manner. Each council has successfully begun to establish new supplier relationships to ensure accountability and the timely delivery of contracted goods and services. The CCs operate in a cross-functional environment where they share lessons learned, best practices, and leverage the successes of one another to maintain a standardized approach to purchasing and supply chain activities.

With on-time delivery up over 90%, MICAP hours nearly 30% lower than in FY03, and supply holding inventories under 10%, commodity councils continue to strive toward objectives set forth by the AFMC LG. Purchasing strength is growing while the associated costs are declining!

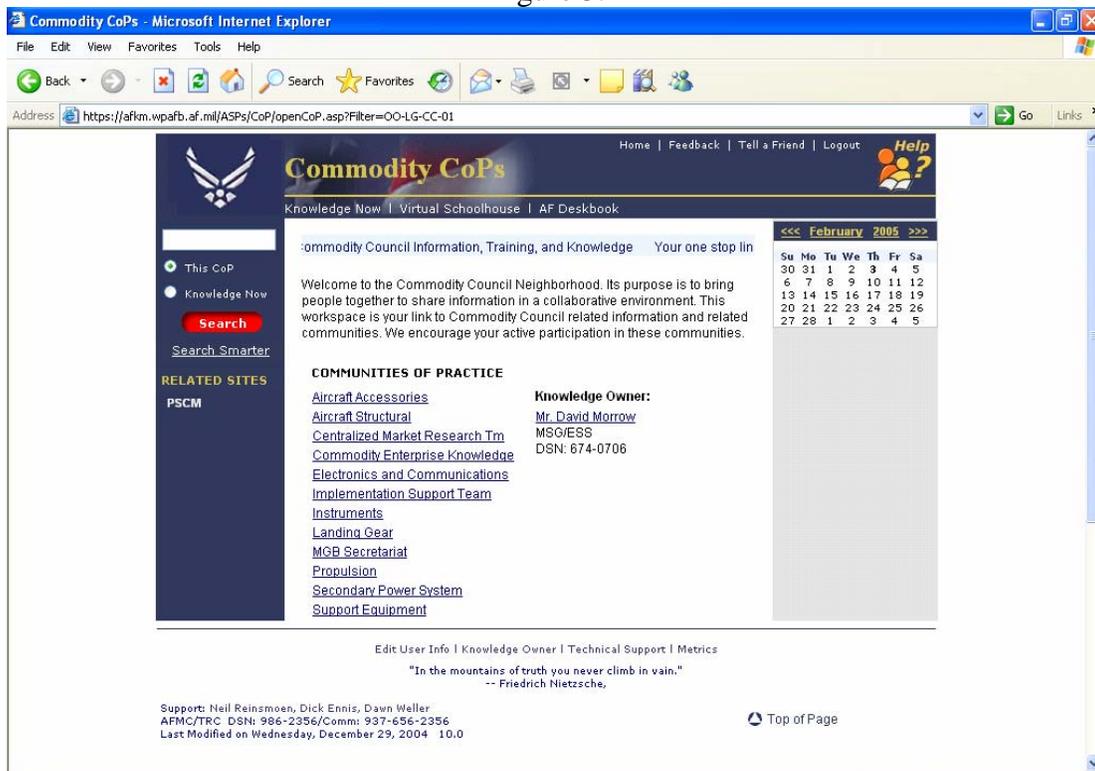


Section 3 – Knowledge Transfer (10 Pts)

3.1 Describe the efforts to share lessons learned from this effort with other internal organizations. (5 pts)

The Commodity Council Initiative is one pillar of six that fall beneath the Purchasing and Supply Chain Management initiative. However, commodity councils, being a collection of cross-functional groups communicate and disseminate information continuously. It is important to share this new found knowledge and recently identified lessons learned with other organizations pursuing purchasing and supply excellence in their attempt to achieve sustainment transformation excellence. It has become the responsibility of the commodity councils and the PSCM initiative to post and share information on the AFMC Knowledge Now web site (see Figure 3.1). This web site serves as a rich repository of invaluable information shared from various resources undergoing various initiatives.

Figure 3.1



The current user base of Knowledge Now continues to rapidly grow and the information available multiplies as new achievements and discoveries are made. For the Commodity Council Community of Practice (CoP) within the Knowledge Now repository, since the completed implementation of the first wave (May, 2004) to now, there are 656 new users, 1,550 returning users, 2,206 returning visitors and over 34,000 pages visited.



In addition to the Commodity Council CoP, within the Sustainment Transformation CoP, bi-weekly “Hot Wires” are posted and shared revealing accomplishments and news from recent efforts. While all of this information is available on the Knowledge Now web site, it is also sent out via email from the site coordinators ensuring a thorough delivery of information.

It is also important to note that a communication plan is currently in development that will provide yet a third medium for sharing and disseminating information on commodity council activities, achievements, and lessons learned.

3.2 Explain how this initiative can be transferred to other organizations, and specify the likely candidates for transference. (5 pts)

The success of the commodity councils is important to the AFMC LG. With the internal publicity expanding with the addition of new users, adoption of new best practices, and sharing of cutting edge information, it is difficult to contain the enthusiasm surrounding this program. The United States Navy (USN), United States Marine Corp (USMC), Department of Defense (DoD) Office of the Secretary of Defense (OSD), Secretary of the Air Force (SAF), the Defense Logistics Agency (DLA), and Air Staff has shown interest in the performance of the commodity councils. It has become apparent to the AFMC that they must share the successes of the CCs and as such, they have begun to explore knowledge sharing processes and activities to ensure that those that are interested are able to possess visibility into the progress of the Commodity Council Initiative.

The USN has engaged in serious discussions with the Air Force regarding the Navy’s use of the Performance Based Logistics (PBL). PBL is mandated in the AF for implementation over the next couple of years. PBL will be the preferred method for supply Weapons Systems components and will provide one of the many strategies that may be developed during the commodity council process as the Air Force moves closer to fully adopting this successful method.

The USMC has exhibited an interest in Commodity Council Initiative. It is extremely critical for the Marines to maximize their purchasing power to assure low cost, high quality, and on-time delivery for all of their Weapons Systems needs. It is because of these needs that the Marines have already sent personnel to participate in the commodity council training program.

The DoD, OSD, and SAF possess a high-level viewpoint for this initiative. In fact, the SAF have adopted the eight-step commodity council process as a best practice and have shared it with the organizations mentioned above. If the CC’s prove useful and successful to the many organizations, the recommendation for implementation can be approved and subsequently disseminated down the ranks to their many sub-departments and organizations.

With the DLA serving as the primary supplier for consumable defense related materiel, it is imperative that they continue to strive towards excellence in the public sector by reaching for excellence on a commercial sector level. Both the Air Force and DLA want to be recognized as the foremost supplier of logistics components in the 21st century. This is why the DLA and AF have engaged in discussions to integrate DLA personnel into AF transformation initiatives.



Summary

The Purchasing and Supply Chain Management initiative owns incredible visibility, but also incredible responsibility to achieve success. With six initiatives beneath the PSCM heading, it is important for each one to meet its targets and continue to launch PSCM to the forefront of the AF Sustainment Transformation. The commodity council effort has been highly successful and achieved significant growth since its inception in April of 2004. Through rigorous research of the customer, suppliers, and market conditions, the commodity councils have successfully established measurable baselines and target metrics to devise a comprehensive and robust strategy for managing commodities.

With an enhanced knowledge of purchased products, the commodity councils are able to position themselves and AFMC as a leader in the purchasing environment. There exists a new confidence and capability that enables each council to maneuver and negotiate contracts with old and new suppliers under terms that are cost effective, accountable, and demand on-time delivery.

The commodity councils have established success in a variety of key metric areas and are contributing significantly to the overall success of the AFMC intent to increase aircraft availability, reduce inventory holding supplies and costs, and reduce the purchasing cycle times (both Production and Administrative lead times). Measured against AFMC Balanced Scorecard metrics and relentlessly in pursuit of excellence, the commodity councils are ensuring consistency and continuity in the purchasing and supply chain management realm.

The commodity council effort is scalable as evident in its success in multiple ALCs. It shares knowledge in a variety of ways via the AFMC Intranet and Portal. It spreads news and information via a bi-weekly electronic newsletter. Bottom line, it has achieved user commitment, sponsor commitment, and AFMC leadership commitment. It is a flourishing program that has enabled AFMC to consider itself a leading entity in the pursuit of becoming a reliable supplier of Weapons Systems components.



Acronyms

AEF	Air Expeditionary Force
AF	Air Force
AF/IL	Air Force/Installations and Logistics
AFMC	Air Force Materiel Command
AFMC LG	Air Force Materiel Command Directorate of Logistics and Sustainment
ALC	Air Logistics Center
ALT	Administrative Lead Time
AMC	Acquisition Method Codes
CAMP	Commodity Acquisition Management Plan
CC	Commodity Council
CMP	Commodity Management Plan
CoP	Community of Practice
CPO	Chief Procurement Officer
CRM	Customer Relations Management
CSW	Combat Support Wing
DLA	Defense Logistics Agency
DoD	Department of Defense
DMT	Depot Maintenance Transformation
E2E	End-to-End
eLog21	Expeditionary Logistics for the 21 st Century
EN	Engineering Directorate
FSC	Federal Stock Class
FYDP	Future Years Defense Program
FY _{xx}	Fiscal Year (e.g. FY04, FY05)
IMS	Integrated Master Schedule
IOC	Initial Operating Capacity
IST	Implementation Support Team
KPI	Key Performance Indicators
KT	Contracts
LG	Directorate of Logistics and Sustainment
MA	Maintenance Directorate
MCR	Material Cost Reduction
MGB	Materiel Governance Board
MICAP	Non-Mission Capable (Hours)
NIIN	National Item Identification Number
NSN	National Stock Number
O&S	Operations and Support
OC-ALC	Oklahoma City, Oklahoma Air Logistics Center
OO-ALC	Ogden, Utah Air Logistics Center
OPR	Office of Primary Responsibility
OSD	Office of the Secretary of Defense



Purchasing & Supply Chain Management (PSCM) Commodity Councils
4/5/2005



PBL	Performance Based Logistics
PK	Contracting Directorate
PLT	Production Lead Time
PoC	Point of Contact
PR	Purchase Request
PSCM	Purchasing and Supply Chain Management
SAF	Secretary of the Air Force
SCOR	Supply-Chain Operations Reference (Model)
SES	Senior Executive Service
SPT	Supply Processing Time
SRM	Supplier Relations Management
SSRM	Strategic Supplier Relations Management
USMC	United States Marine Corps
USN	United States Navy
WR-ALC	Warner-Robins, Georgia Air Logistics Center



Glossary

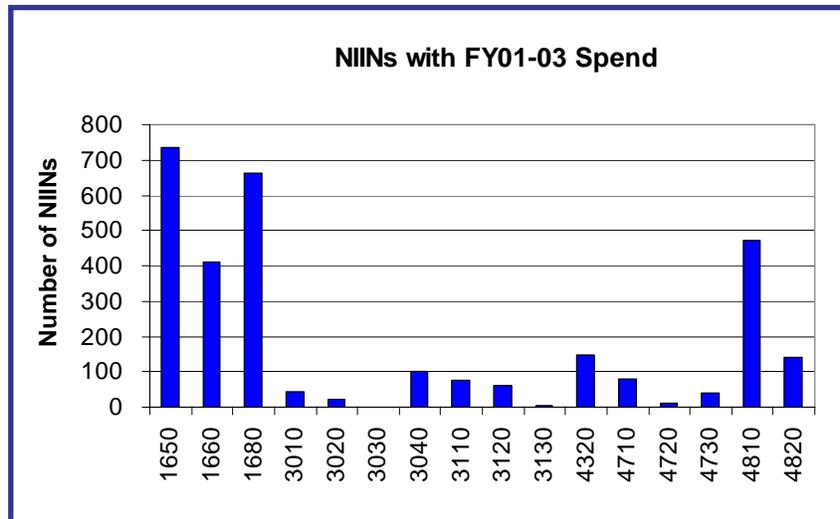
CAGE	This code is provided to service providers and manufacturers for use for reference for all contractual agreements
CWT – Customer Wait Time	The average number of days from when a customer orders a spare part and when they receive that part
ID/IQ – Indefinite Delivery Indefinite Quantity	A contract model that species neither delivery or quantity parameters
MICAP – non-Mission Capable Hours	Represent the total hours and aircraft is grounded for lack of a spare part
NSN with Strategies	Reported as a percentage, the population of active NSNs within each commodity council's control/responsibility (Commodity Group), that are identified in a CAMP strategy which has been approved by the MGB
Small Business	The percentage of actions (or dollars) associated (allocated) to small business over a specified period of time for a given commodity group
Source Cycle Time	The time required for the supply chain to react to an identified requirement from the Source of Supply, until the part is delivered to the Source of Supply starting at the asset cut-off date
Unit Price Reductions	Difference between the current price and the former price



Attachment 1

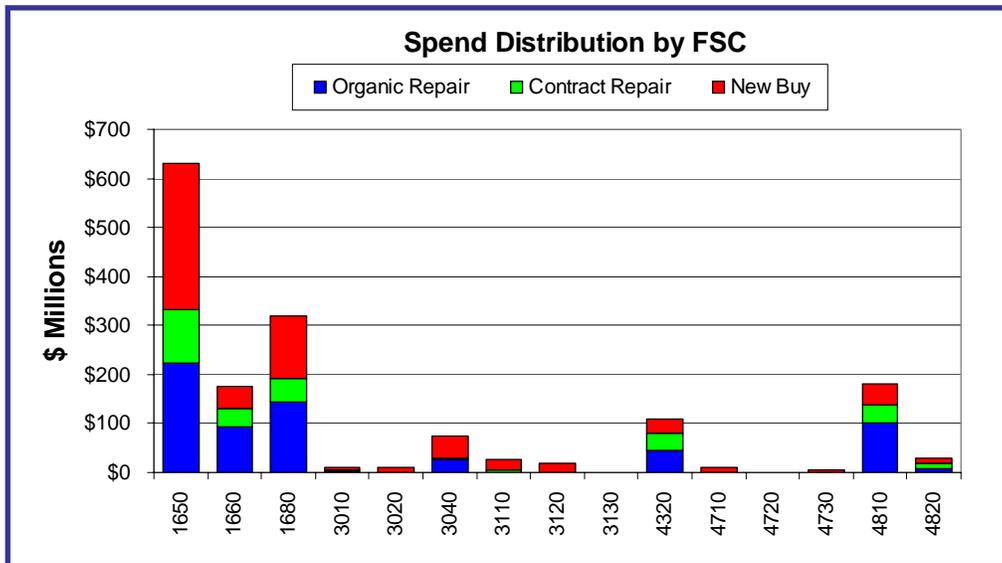
The following tables represent the detailed analysis performed during the PSCM Commodity Council Initiative.

NIIN Distribution



* Over 3000 NIIN had a spend during the past three fiscal years

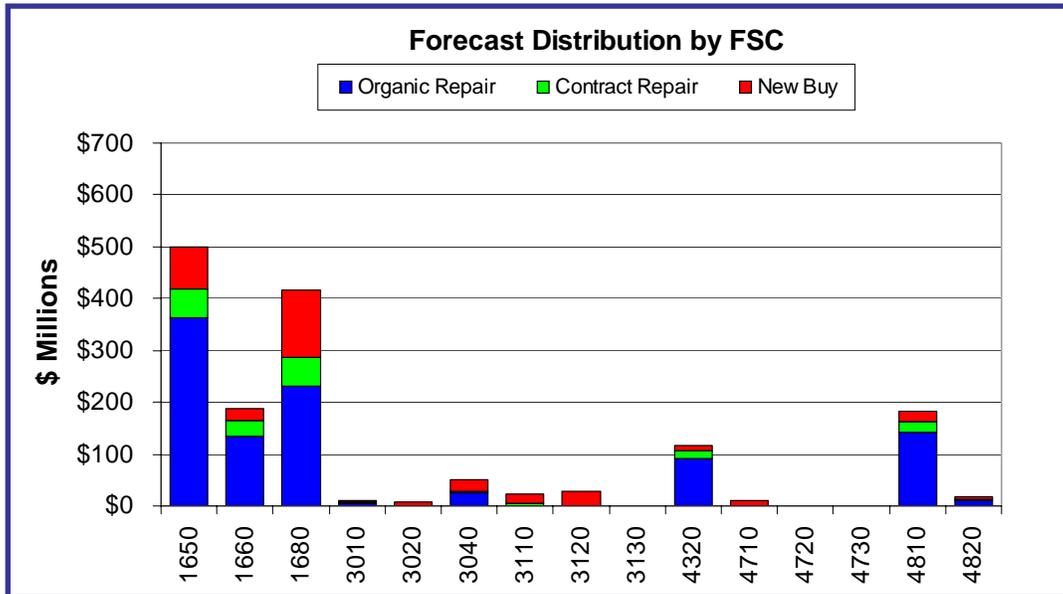
Spend Distribution



* Spend concentrations correlate to NIIN concentrations

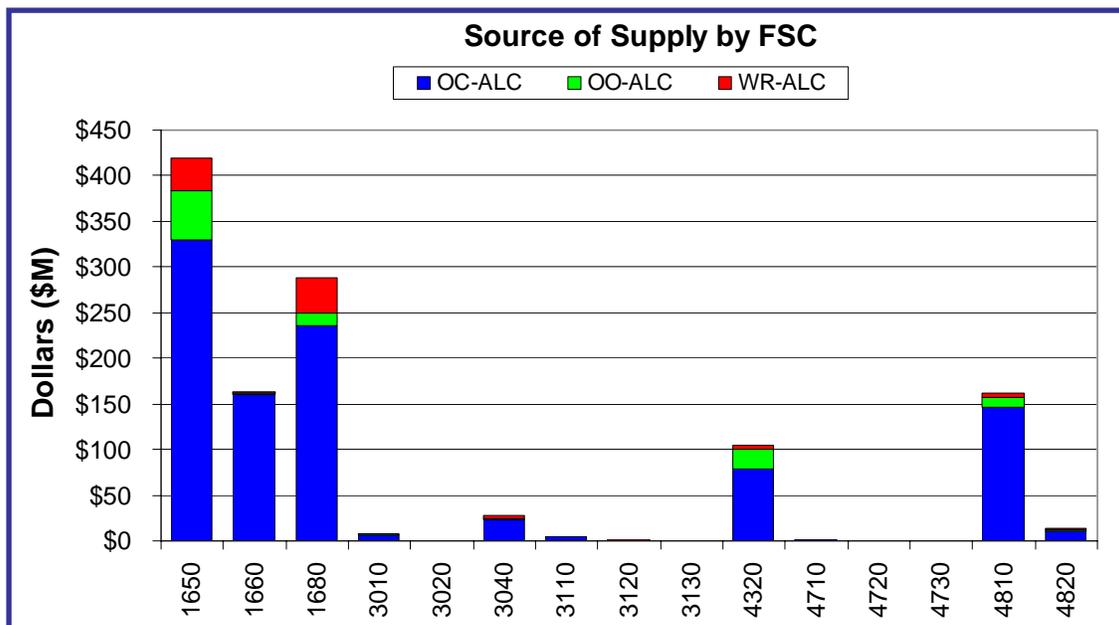


Forecast Distribution (FY04-FY06)



* Forecast concentrations also correlate to NIIN concentrations
* Suggests level of effort associate with each FSC

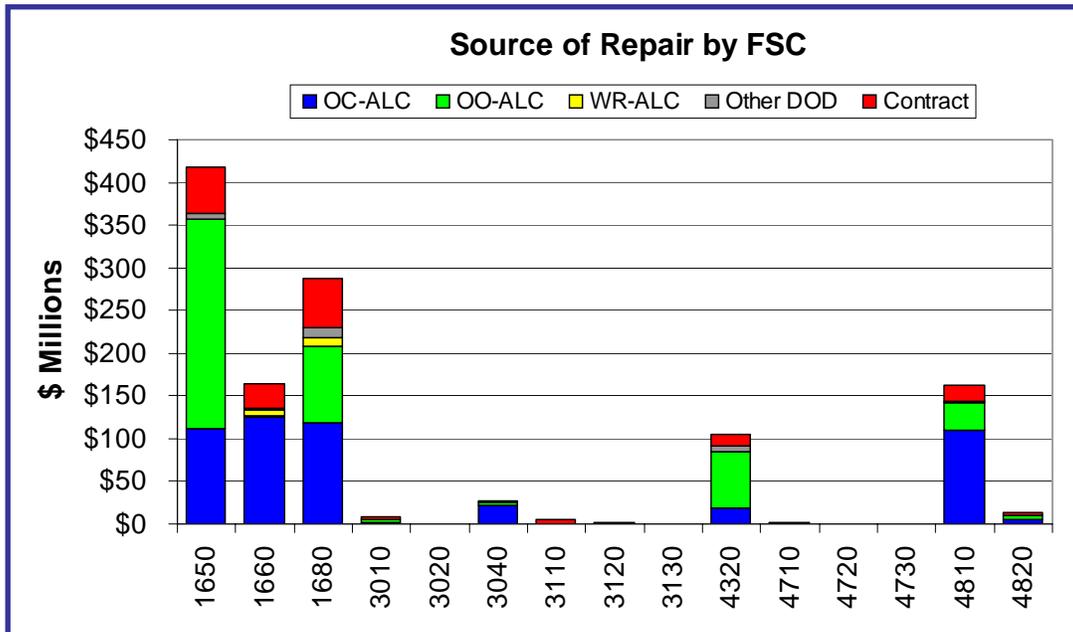
Source of Supply (FY04-FY06 Forecast)



* OC-ALC controls 83% of forecast dollars

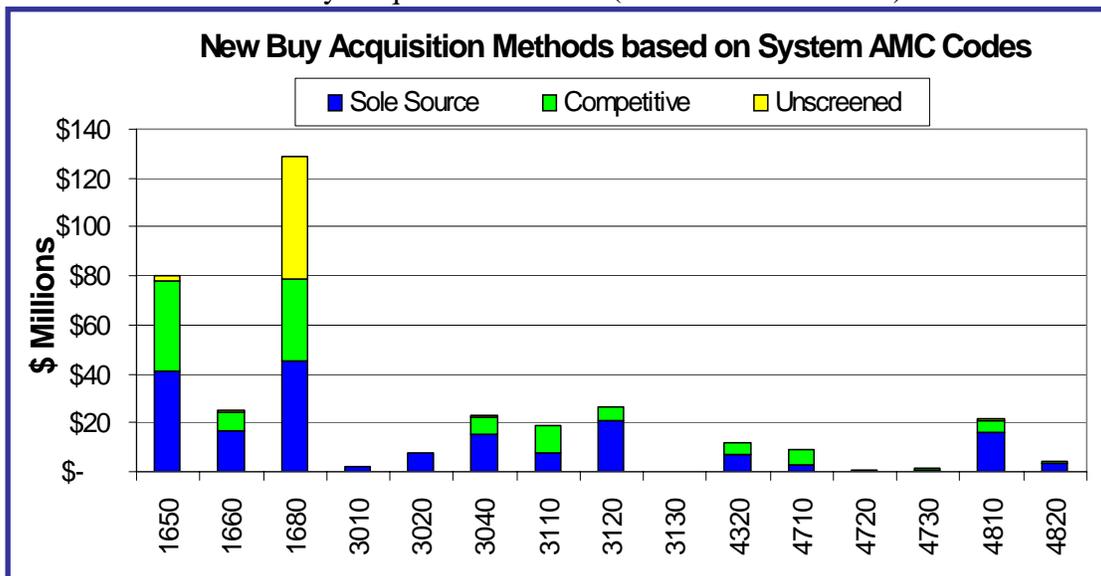


Source of Repair (FY04-FY06 Forecast)



* Primary source of repair is fairly split between OC-ALC (43%) and OO-ALC (37%)

New Buy Acquisition Method (FY04-FY06 Forecast)



* 52% of forecast is identified as probable sole source

* Unscreened items must be screened prior to forming strategy