



Toward a 21st Century Defense Logistics Enterprise

Balancing Effectiveness and Efficiency

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Executive Summary

Historically the focus of the defense acquisition and sustainment system has swung pendulum-like between two policy objectives. At one end of the arc, the goal is effectiveness: insuring that the military gets the best equipment and support available as rapidly as possible even if this means choosing a more costly alternative. Effectiveness is the priority when U.S. forces are engaged in combat as they have been for the past decade. At the other end of the arc, the goal is efficiency: providing solutions based generally on lowest cost. In order to achieve efficient outcomes, the acquisition system tends to increase oversight and slow down the process of buying goods and delivering services. A focus on efficiency is common in peacetime, particularly when defense budgets are declining.

The current period in world history can be characterized as “neither war nor peace.” Although the U.S. military is out of Iraq it is still operating in Afghanistan, conducting counter terrorism activities in dozens of places and contemplating (perhaps planning for) the possibility of having to intervene in such countries as Syria, Libya and Iran. The adversaries’ tactics, techniques and procedures are continuously evolving, requiring that U.S. forces respond with new means and methods.

At the same time, defense budgets have begun to decline and pressure is increasing to reduce acquisition costs. As one defense department acquisition official described it, the environment is changing from “how quick can I get it done” to “do I know how every penny is being spent.” The drive for efficiency often results in greater oversight, a more protracted contracting process and an increase in the time it takes to deliver goods and services. Further complicating the acquisition system’s efforts to become more efficient is the growing demand by the military for commercially produced goods and services. The challenge for the acquisition system in an era of neither war nor peace is how to balance the need for effectiveness in the provision of support to the warfighter with the demand for greater efficiency.

A number of defense department organizations have instituted innovative approaches to acquisition and supply chain management that achieve a balance between effectiveness and efficiency. In most instances, these examples are based on the use of commercial best practices. Programs such as the Defense Logistics Agency’s Tailored Logistics Support Program, Naval Sea Systems Command’s SeaPort-Enhanced and the Army Sustainment Command’s Enhanced Army Global Logistics Enterprise have demonstrated a remarkable ability to streamline the procurement and supply chain process while simultaneously improving responsiveness and reducing costs.

The Department of Defense needs to examine its acquisition portfolio with an eye to expanding the use of proven, innovative procurement and supply chain management techniques. For example, DLA’s TLSP system could be expanded to other types of procurement such as communications and surveillance systems, as well as soldier clothing and individual equipment. The department also should seek to expand the current, limited use of performance-based logistics contracts.

Lessons from a Decade of War

For more than a decade, the U.S. military has been engaged in a series of conflicts unlike any in its history. The adversaries against whom the U.S. fought, the locations in which the conflicts took place and, perhaps most significantly, the operational character of these conflicts, were significantly different from those for which the military had been preparing. Emblematic of the changed nature of conflict was the appearance of the improvised explosive device (IED) which has been the source of the vast majority of U.S. combat casualties and continues to threaten U.S. forces in Afghanistan. The United States and its Coalition partners have spent tens of billions of dollars on a wide range of measures to counter this remarkably simple, yet insidious threat. What is particularly noteworthy about the history of the IED threat for the future of conflict is the ability of adversaries to adapt their weapons and tactics to U.S. countermeasures.

Facing a radically different set of challenges, the services responded by changing the way they organized, trained and equipped units for combat. New manuals were written and training regimens created to prepare U.S. forces for fighting a global counterinsurgency and protracted, large-scale stability operations. Existing fleets of vehicles and aircraft were upgraded with new sensors, weapons, communications devices and defensive capabilities and thousands of new platforms such as the Mine Resistant, Ambush Protected (MRAP) trucks, Stryker armored fighting vehicles and Predator and Reaper unmanned aerial systems were acquired. Soldiers and units were equipped with an ever changing array of new communications devices, sensors, intelligence fusion systems, electronic warfare capabilities and weapons. Much of the soldier clothing and individual equipment acquired prior to the conflicts were found to be inadequate or irrelevant and had to be rapidly upgraded or replaced.



Troops in Afghanistan with advanced individual equipment.

The Department of Defense (DoD) responded to the significant number of capability gaps experienced by U.S. forces in Iraq and Afghanistan by creating specialized organizations such as the Rapid Equipping Force (REF) and the Rapid Fielding Initiative (RFI). The fundamental reason for standing up these organizations was to create alternative procurement channels that permitted the rapid identification, development, testing and fielding of needed capabilities from any available provider. The goal of the REF is to respond to specific, urgent operational needs faced by commanders and soldiers in the field. The program seeks to identify, test and field a response to such needs within 180 days. The REF now provides single-stop shopping for critical soldier equipment, providing “game changing technology” to the warfighter with an emphasis on enhancing survivability, improving force protection and increasing lethality. The Rapid Equipping Force has purchased more than 20,000 items in a single year, including robots, surveillance systems, digital translators and weapon accessories.

The Rapid Fielding Initiative strives to ensure that all deploying units possess the appropriate equipment in kit form for its intended mission. RFI items include a wide array of operational clothing and soldier equipment such as spotting scopes, weapons accessories, night vision systems, optics and lasers as well as improved versions of basic items such as socks, boots and moisture-wicking T-shirts. Since 2002 more than one million soldiers have been equipped with state-of-the-art equipment, providing significant enhancements to their lethality, mobility, survivability and operational quality of life.



Complete kitted solutions provide critical material to frontline end users on the edge of war, battling challenging asymmetric tactics.

A major lesson emerging from the past decade is the growing importance of the commercial industrial base and commercial services industries for the conduct of future conflicts and equipping of U.S. forces. Through the course of U.S. military deployments in Iraq and Afghanistan the number of civilian contractors in both countries supporting the warfighters was greater than the number of uniform personnel. The commercial industrial base demonstrated a remarkable ability to rapidly meet the needs of the warfighter with advanced systems, equipment and devices of exceptional high quality. Even before September 11, 2001, there was a growing recognition that the commercial industrial base was able to provide products such as jet engines, aircraft parts, IT hardware and software, communications devices and sensors as good as, and often better than, what the defense industrial base could deliver. Over the past decade, the commercial industrial base has shown that it could also deliver a wide variety of new and advanced capabilities including tactical unmanned aerial systems, man-portable robots and advanced cold weather clothing.

Another lesson was the importance of agile international supply chains. The wars in Iraq and Afghanistan presented logisticians with challenges they had never anticipated. DoD's peacetime logistics architecture lacked the experience, training, procedures, tools and even authorities to provide the mixture of oversight and responsiveness of a multiplicity of supply chains. There were the problems posed by distance, harsh terrain and inadequate infrastructure. Just-in-time delivery had long since replaced the creation of so-called "iron mountains" of supplies. At the same time both the quantities and varieties of supplies that had to be acquired, moved, tracked, delivered and, in some cases, disposed of, was unprecedented.

Above all, the last ten years have clearly demonstrated the importance of a defense logistics and sustainment system that is agile, responsive, able to integrate both commercial and defense unique capabilities and effective in meeting the needs of the warfighter. Such a system does not now exist. DoD managed to get by over the past decade by creating workarounds to the

structures, processes and regulations developed over the course of the Cold War. A true 21st Century logistics and sustainment system needs to build on the lessons learned from recent conflicts. In particular it must develop ways of harnessing the energy and innovative capabilities resident in the commercial industrial base.

A New Security Environment: Neither War nor Peace

The United States is out of Iraq and planning on withdrawing most of its forces from Afghanistan in 2014. However, this does not mean that we can look forward to a period of peace. The United States will remain a global power with interests, allies and forces in multiple regions of the world. U.S. military forces are indispensable to preserving the peace, protecting the global commons, countering violent extremism, building partnership capacity and responding to humanitarian crises. In addition, the military has a continuing, even growing, role in defending the homeland and supporting civil authorities. While it is to be hoped that the U.S. military soon will not be actively engaged in major hostilities, it is virtually certain that it will continue to be extremely active in the world.

The next several decades are likely to prove even more challenging than the last ten years with respect to the requirements to organize, train, equip and support U.S. forces. The global security environment is becoming less predictable due to changing political, economic, ideological and technological conditions. The U.S. military cannot tell with any confidence where, when or against whom they will have to fight.

Emblematic of this new security environment is the rise of the so-called hybrid threat. The hybrid threat paradigm encompasses a set of adversaries ranging from nation-states through insurgents and guerrilla groups down to criminal organizations and computer hackers all operating in a coordinated fashion to conduct an asymmetric campaign designed to defeat U.S. conventional military capabilities. Hybrid threats are expected to employ an extremely broad array of technologies – including nuclear weapons, ballistic and cruise missiles, electronic warfare and cyber attacks – and employ both conventional and unconventional military structures and tactics.¹

The array of challenges confronting U.S. security led the Obama Administration to conclude that the nation was at a “moment of transition.” To guide that transition, a new defense strategy was promulgated, one that:

. . . transitions our Defense enterprise from an emphasis on today’s wars to preparing for future challenges, protects the broad range of U.S. national security interests, advances the Department’s efforts to rebalance and reform, and supports the national security imperative of deficit reduction through a lower level of defense spending.²

There are three first-order implications for future force planning to be drawn from this discussion of the new security environment. The first is that the U.S. is likely to be surprised with respect to

¹ Department of Defense, *2010 Quadrennial Defense Review*, February 2010, p. 8

² Department of Defense, *Defense Strategic Guidance*, January 3, 2012, p. 1

the nature, location and rapid timelines of future conflicts. The second implication is that it will be increasingly difficult to ensure prior to the start of any conflict that U.S. forces have the best possible weapons and equipment. The third is that facing the pressure of tightening defense budgets, the U.S. will have to be selective with regard to the forces it maintains and the modernization programs it pursues. As a result, the military will have to accept greater strategic and even operational risk.

The U.S. military is being asked to operate in a security environment that can be characterized as “neither war nor peace.” The new U.S. strategy commits the military to continuing involvement in multiple regions of the world and to the security of the global commons. Given current plans to reduce defense spending, the challenge for the military is to do more with less.

The New Acquisition Environment: Moving from Effectiveness to Efficiency

Historically the focus of the defense acquisition and sustainment system has swung pendulum-like between two policy objectives. At one end of the arc, the goal is effectiveness: ensuring that the military receives the equipment and support required as rapidly as possible. Effectiveness makes sense when the nation is at war. Achieving effectiveness can mean replacing existing

processes, procedures and regulations. It may even mean choosing the more expensive among competing alternative platforms or programs if it provides a better capability or can be fielded more rapidly.

Effectiveness has been the acquisition system’s goal for the past decade. Since September 11, the United States has been willing to spend enormous sums to ensure that U.S. forces in combat are provided with the wherewithal to prevail. Emblematic of a system focused on effectiveness was DoD’s acquisition of MRAP vehicles. In a little more than three years, the Pentagon spent approximately \$40 billion acquiring, upgrading and sustaining some 30,000 MRAPs, including a variant designed

specifically for Afghanistan, the MRAP All Terrain Vehicle.³ So urgent was the requirement that the defense department chose to pay the additional costs to fly a significant number of MRAPs directly into theater, thereby avoiding the extra time required to ship the vehicles by sea.

The drive to more effectively meet the warfighter’s needs incentivized elements of the acquisition system to experiment with new and innovative approaches to procurement and supply



Multicultural force readiness will be required as we move into the next decade of national security.

³ MRAP Joint Program Office, Mine Resistant Ambush Protected (MRAP) Vehicle Program Overview, Tactical Wheeled Conference, February 2012

chain management. For example, confronted with the demand to provide the entire Active Component and mobilized reservists with improved cold weather clothing to meet conditions in Afghanistan, Program Executive Office Soldier chose an innovative and, in the view of some, risky but successful approach of outsourcing. Instead of attempting to manage the array of commercial clothing, fabric and component providers and an extensive supply chain, it selected a private sector prime contractor to provide the entire military with the third generation or GEN III Extended Cold Weather Clothing System.⁴

At the other end of the acquisition arc, the goal is efficiency: ensuring the optimum use of defense resources. This means providing solutions based on lowest cost. In order to achieve efficient outcomes, the acquisition system tends to increase oversight and slow down the process of buying goods and delivering services. A focus on efficiency is common in peacetime, particularly when defense budgets are declining.

Over the past several years, as the current conflicts began to wind down, the focus of acquisition policy has shifted from effectiveness to efficiency. As one DoD acquisition official described the change, the environment has shifted from “how quick can I get it done” to “do I know how every penny is being spent.”⁵ The drive for greater efficiency was also a response to the escalating costs associated with procuring and sustaining weapons platforms and major military systems. To this end, the Department of Defense instituted a series of reforms under the banner of Better Buying Power intended to improve the efficiency of the acquisition system and, in particular, reduce the cost of defense goods and services. A central feature of recent reform efforts is to promote increased competition among private sector providers.

The pressure on DoD’s acquisition system to find savings is intensifying. A reduced U.S. defense budget is a central aspect of the emerging security environment. As a result, the new defense strategy has called on DoD to continue to reduce the “cost of doing business.”⁶ This requirement naturally translated itself into a further drive to achieve efficiencies in defense acquisition and sustainment.

Further complicating the acquisition system’s efforts to become more efficient is the growing demand by the military for commercially produced goods and services. Contracting with the government, in general, and DoD, in particular, is based on a unique set of procedures, regulations, oversight and reporting requirements and budgeting laws designed largely to improve efficiency but which can increase costs of commercial items or even impose serious barriers to entry by commercial firms to the defense market place.

Building efficient supply chain management has been a perennial problem for the Department of Defense. The Government Accountability Office (GAO) has listed supply chain management on its list of DoD’s high risk management areas for many years. A 2010 GAO report concluded that 52 percent of the Defense Logistics Agency’s (DLA) spare parts inventory was excess to requirements objectives at the same time the agency was experiencing inventory deficits in

⁴ Daniel Goure, *Improving on Success: Expanding the Use of Prime Contractors for Soldier Clothing and Equipment*, Lexington Institute, Arlington, VA, December 2011

⁵ Space and Naval Warfare Center (SPAWAR) Atlantic, *Making IT Count Through Contracts*, April 19, 2012, p. 17

⁶ *Defense Strategic Guidance, op. cit.*, p. 7

critical areas.⁷ GAO and other organizations have repeatedly documented problems with DoD's efforts to improve its supply chain management. The problem, simply put, is that the government lacks the ability to replicate commercial practices in supply chain management. As a recent study pointed out:

One of the most transformative factors in the modern global economy is end-to-end supply chain visibility and just-in-time delivery. One of the most effective things DoD can do to reduce costs is to achieve excellence in the activities it reserves to itself or to source those activities where excellence can be found.⁸

There are a wide range of commercial best practices in contracting, manufacturing and supply chain management that have a demonstrated ability to reduce costs. There is clear evidence that when such best practices have been applied to defense acquisition and sustainment, performance has improved and costs have gone down. Numerous studies have shown that DoD could significantly reduce its costs of doing business by reducing the burdensome aspects of the current acquisition system and embracing more commercial best practices.⁹

While providing for the warfighters' current needs, modernizing the force, and reducing the costs of doing business, the acquisition system must also prepare for the possibility of reversing the reduction in the size and composition of the U.S. military. Reversibility will require a deliberate strategy quite different than the laissez-faire approach taken during previous downsizings to the defense industrial base. In prior eras, the Pentagon simply bid adieu to defense companies with the expectation that they or someone very much like them would be available when the need arose again. Benign neglect will not work this time. Key sectors such as shipbuilding, defense electronics, small arms and soldier clothing and individual equipment cannot be expected to remain intact without direct government involvement. DoD will need to design an explicit defense industrial strategy to ensure both the continuing flow of modern equipment over the next decade or two as well as the additional or virtual industrial capacity to support a future defense buildup. The barriers between the private and public portions of the defense industrial base will need to be broken down. The seams in the current acquisition system between procurement and sustainment need to be addressed.

The challenge for the acquisition system in an era of neither war nor peace is how to balance the need for effectiveness in the provision of support to the warfighter with the demand for greater efficiency. Equally important, the acquisition system must have in place the authorities, policies, procedures and mechanisms to support both a surge capability and, should the need arise, rapid reconstitution.

⁷ Government Accountability Office GAO-10-469, *Defense Inventory - Defense Logistics Agency Needs to Expand on Efforts to More Effectively Manage Spare Parts*, May 2010.

⁸ Lexington Institute, *Meeting the DoD Sequestration Level Cost Cuts Without Cutting Strategy, Programs or Readiness*, April 2012, p. 6

⁹ Aerospace Industries Association, *Defense Acquisition Reform: Moving Towards an Efficient Acquisition System*, November 2011; Jacques Gansler, "Applying Innovation to Improve Logistics Performance and Reduce Costs," NDIA 28th Annual National Logistics Conference, Miami, FL, March 29, 2012; Defense Business Board, *Linking and Streamlining the Defense Requirements, Acquisition, and Budgeting Processes*, April 12, 2012

Innovative Approaches for Balancing Effectiveness and Efficiency

The U.S. military of the 21st Century requires a different acquisition and sustainment system than the one established to support a Cold War defense plan and force structure. The current system is ponderous, inflexible, slow and too costly. More important, the acquisition system is increasingly out of sync with the modern industrial world. Critics of defense acquisition love to point to the commercial IT industry which has an innovation cycle measured in months while the Pentagon's acquisition process generally takes years. But this same situation is true in many other areas. Defense no longer leads the nation in technology innovation. If anything, the present acquisition system stifles innovation.

Despite the sincere call by defense officials for a streamlined process, the acquisition system's rules, regulations, reporting requirements, decision processes and liability requirements make it increasingly difficult for dedicated defense companies to operate successfully and profitably under the existing rules and procedures. So onerous has the regulatory burden become, that the chairman of the Defense Business Board summarized the results of a recent study of acquisition reform by saying of the current 2,013 pages of the Federal Acquisition Register that, "If it was me, I'd take 'em all and put a match to it."¹⁰



Special Operation Forces will see an increased demand for high tech rapidly enhancing gear as overall troop numbers decline and they do more with less. A balance between strike and security capabilities must be met with superior technology.

However, there are a number of examples of innovative approaches to acquisition and supply chain management that have successfully achieved a balance between effectiveness and efficiency.

The goals of these efforts essentially are the same across agencies and services: to improve performance of the logistics system, provide better value to the warfighter and reduce costs. In most instances, these approaches are based on the use of commercial best practices such as discounts for volume purchases. They also create cost savings by eliminating repetitive acquisition activities, reducing stockage and infrastructure and streamlining ordering procedures.

For more than a decade, DoD has sought to apply the principles of performance-based logistics, widely employed in the commercial maintenance, repair and operation (MRO) arena, to similar facets of military sustainment. There is clear and compelling evidence that properly structured, performance-based agreements can improve the effectiveness of sustainment efforts while reducing costs. According to the then-Acting Under Secretary of Defense for Acquisition, Technology and Logistics:

¹⁰ Sydney J. Freedberg, "'Put a Match to It' and Scrap DoD's Buying Rules: Top Pentagon Advisor Exclusive, *AOL Defense*, August 30, 2012

Tailored Logistics Support Program

The Defense Logistics Agency's Tailored Logistics Support Program (TLSP) is designed to provide DoD and federal customers with a simple, rapid and reliable way of procuring a wide array of commercial-off-the-shelf and national stock number items and related products and services. According to DLA, the goal of TLSP is to "provide customers with responsive, high quality products at fair and reasonable prices. This is accomplished by promoting competition between qualified vendors." Based on the well-proven prime vendor approach, the TLSP model is to award multiple, broadly scoped, indefinite duration/indefinite quantity contracts. Every task order is competed on price and delivery times. Contracts can be either for worldwide operations or support specific Combatant Command areas of responsibility or regions of the continental United States. TLSP-based contracts are particularly useful in cases where the customer is seeking access to a broad array of relatively sophisticated products and equipment, training and total logistics support.

The advantages of TLSP include:

- Multiple vendors compete on price and delivery time
- Simplified procurement system with customers product of choice
- Improved logistics response times with surge capability
- Rapid, easy and cost effective support of commercial and commercially modified products and incidental services
- Full compliance with the Berry Amendment, Free Trade Agreement and Buy American Act
- Vendor responsibility for order delivery
- Cost savings due to reduction in materials stockpiles and supporting infrastructure
- Full product support including training and logistics

DLA currently has TLSP-based contracts in place for Special Operations Equipment (SOE), Fire and Emergency Services Safety and Rescue Equipment (F&ES), medical equipment and supplies, maintenance, repair and operations, and food.

Operations and Support (O&S) costs comprise 60 to 70 percent of total ownership costs. We must find ways to lower our O&S expenditures while maintaining the right readiness for our Warfighters. A key method to lowering O&S costs is the implementation of sustainment strategies that optimize readiness at best value. Appropriate use of Performance-Based Logistics (PBLs) will help to achieve affordable sustainment strategies and is a method for achieving our Better Buying Power (BBP) goals.¹¹

One of the easiest and most straightforward approaches to streamlining government contracting, reducing costs and improving performance is the Government Services Agency's (GSA) system of schedules. The GSA schedules are long-term, government-wide contracts with multiple commercial firms to provide federal, state and local government agencies with ready access to millions of commercial items and services at fair and reasonable prices. GSA also can issue Blanket Purchase Agreements which permit the government to issue multiple task orders to a contractor once an initial fair price determination has been made. Because of the access to potential customers across the government space, the GSA schedule system creates the potential for vendors offering volume pricing discounts. By using GSA schedules, government organizations can eliminate much of the extra effort and costs associated with creating and managing multiple contracts covering complex and changing procurements.

The Special Operations Forces Survival, Support, and Equipment Systems (SSES) Program is responsible for providing management, direction and guidance for the planning, development, acquisition, testing, fielding and product improvement efforts for United States Special Operations Command (SOCOM) SSES programs and products. These systems include backpacks, extremity protection, clothing, load carriage, body armor vests, land and maritime communications, eye protection, Visual Augmentation System mounts, ballistic plates, soft armor, helmets and tactical combat casualty care items. The SSES Program Manager is further charged with cradle-to-grave life-cycle management of these systems.

Recently the SSES Program Office utilized GSA Region One to assist in a new Multiple Award Task Order Contract or ID/IQ to replace numerous disconnected individual contract actions utilized to procure the majority of the office's requirements. The newly awarded GSA contract will channel the majority of upcoming procurement efforts into a single ID/IQ vehicle with the ability to reduce overhead and administration cost to the Program office's budget.

SOCOM has always had a need for rapid development and procurement of non-standard, specialty or advanced items. In many ways, SOCOM has served as the leading edge for the design and development of soldier equipment for the larger Army. The way the Army is equipped today – uniforms, cold weather clothing, weapons, night vision systems, etc. – is the way Special Operations Forces were equipped five to ten years ago. These GSA-based contracts give SOCOM the ability to reach out to industry to develop new products, modify existing systems or buy commercial-off-the-shelf items rapidly.

Another example is the use of prime vendors or prime contractors to manage large procurements of commodity items with a diversified and largely commercial vendor base. In the late 1990s,

¹¹ The Honorable Frank Kendall, USD(AT&L), "Endorsement of Next Generation Performance-Based Logistics Strategies," May 14, 2012

DLA instituted a program to establish long-term ID/IQ contracts with a number of prime vendors providing materials such as plumbing, electrical components, heating/ventilation/air conditioning, lumber, fixtures and hardware needed to support the MRO of defense facilities. Prime vendors were responsible for contracting with commercial vendors to provide the specified items at the best price and on time. Since it was first used, the prime vendor contracting model has been expanded to include such areas as troop subsistence, medical



Field medicine and casualty evacuation technology is cutting edge as the demand from two wars has demanded. We must find procurement systems that can sustain current levels and drive funding for innovation in the future.

supplies and even repair parts for major platforms. The prime vendors employed commercial contracting practices and volume purchases to achieve cost reductions. In addition, the use of prime vendors reduced both transaction costs to the government as well as the expenses associated with the maintenance of large inventories and infrastructure.¹²

DLA has expanded its use of prime vendors to other areas. One of these is the procurement of medical supplies. The DLA Medical Distribution and Pricing Agreement awards geographically based prime vendor contracts for pharmaceuticals and medical supplies.

The Defense Logistics Agency has instituted a new approach to supporting the warfighter, one that is both effective and efficient. DLA's

Tailored Logistics Support Program (TLSP) enables customers from any of the services to acquire rapidly and at an affordable price specific categories of goods that are almost entirely commercial in character. TLSP ensures that DLA customers are able to get the products that they want when and where they need them while providing for continuing competition among providers that serves to reduce costs. How is this balancing act achieved? Rather than selecting a single prime vendor, TLSP is based on awarding multiple ID/IQ contracts to highly qualified and experienced prime vendors or integrating contractors who, in turn, have access to a wide array of commercial and specialty vendors. The winning contractors then compete for every task order to provide a specific type and quantity of good or service with the winner determined primarily on price and speed of delivery.

TLSP offers important advantages over the traditional defense procurement process that are particularly significant when the products and services to be acquired are commercial in nature. A single contract with each of the prime vendors and a transparent task order process governs all transactions. The prime vendors interact directly with specific product providers to ensure both quality of items procured and timeliness of delivery. This substantially reduces paperwork, manpower requirements, inventories and infrastructure. Under TLSP, new or improved products can be procured without having to execute a contract modification. The prime vendor provides customers with required cost, pricing and compliance information in the proper formats, freeing

¹² Hank Hogan, "For the Troops," *Military Logistics Forum*, Volume 6, Issue 5, June 2012

the commercial vendors, many of whom are unable or unwilling to create the necessary accounting and reporting systems, from this burden.

Currently, DLA employs TLSP in selected procurement areas such as Special Operations equipment and fire fighting and emergency rescue. The TLSP format is particularly relevant in these areas because most of the vendor base is commercial in character, a wide range of products and services are involved and the rates of technological change are high. This approach ensures that the buying organization can avail itself of the latest technologies, the vendors are able to access the defense marketplace and DLA is able to provide a wide range of products without the requirement to build large inventories of potentially obsolete items or maintain a warehouse.

The U.S. Navy has developed a number of innovative programs to streamline logistics and sustainment contracting, achieve access to a broader base of commercial vendors and reduce costs. SeaPort-Enhanced (SeaPort-e) is a system of multiple award contracts to some 1800 professional, technical and administrative services providers. SeaPort-e established a standardized process for issuing competitive solicitations amongst a large and diverse community of approved contractors, as well as a platform for awarding and managing performance-based task orders. This unified approach allows SeaPort-e service procurement teams to leverage their best work products, practices, and approaches across the Navy's critical service business sector. SeaPort-e is organized geographically, by zones, which include all 50 states.

Space and Naval Warfare Systems Command (SPAWAR) has taken a similar approach to that adopted by DLA in the TLSP for the procurement of advanced IT and communications services. SPAWAR not only acquires IT and communications hardware and services for the Navy, Marine Corps, joint organizations and other government agencies, but it also conducts special activities such as integrating intelligence, surveillance and reconnaissance and IT capabilities on nearly 25,000 MRAPs and MRAP All-Terrain Vehicles.

SPAWAR found its traditional acquisition model, based on awarding a small number of basic contracts for both IT and communications services and hardware with large primary services companies, was increasingly unworkable, unmanageable, unresponsive and unaffordable. This system was replaced by a series of multiple ID/IQ contracts for specific types of engineering, technical, and programmatic services and solutions. Hardware and services procurements were separated resulting in a significant reduction in the costs of the former. Multiple awards are either functionally or regionally-based with bidders permitted to compete for one, several or all areas. Each procurement action is structured as a task order offered to all qualified. The result has been dramatically reduced costs, greater transparency, improved access to state-of-the-art technology, a reduced workload for SPAWAR personnel and improved response times.¹³

The Army Sustainment Command and Army Contracting Command are collaborating to create the Enhanced Army Global Logistics Enterprise (EAGLE) – a five year, \$23 billion contract to provide logistics services requirements, primarily material maintenance services, retail/wholesale supply services and transportation support services for the directorates of logistics installations.

¹³ William Paggi, "SSC Atlantic Contracting Strategy: The Rest of the Story," briefing by SPAWAR Atlantic, December 6, 2011; Christopher Miller, "Making IT Count, briefing by SPAWAR Atlantic, June 28, 2012

The traditional logistics sustainment system had a number of major deficiencies: a myriad of contracts, multiple redundant sources of products and services, limited competition, lengthy acquisition lead times and a lack of transparency. EAGLE consolidates multiple contracts into a single vehicle for each primary support activity. Each single contract source will award multiple, annually reviewed Basic Ordering Agreements to all qualified commercial companies with all tasks bid competitively. The EAGLE approach reduces the number and complexity of sustainment contracts, simplifies the task ordering process, enhances contractor responsiveness and reliability and employs continuing competition at the ordering agreement and task order levels to reduce costs.¹⁴

A few defense procurement and logistics organizations have successfully adopted commercial supply chain management practices to improve their support of depots and air logistics centers. DLA's Defense Supply Center Richmond adopted the Collaborative Planning, Forecasting and Replenishment (CPFR) system to improve its management of spare parts flows. CPFR is a tool developed by the Voluntary Interindustry Commerce Solutions (VICS) Association based on commercial best practices to improve collaboration and information sharing between supply chain entities. In 2009, VICS gave its Collaborative Commerce Achievement Award to Defense Supply Center Richmond and the Oklahoma City Air Logistics Center for collaboration on MRO of the KC-135 Stratotankers. The two organizations employed the CPFR tool to streamline the parts supply chain in support of a program to rebuild the flight control systems on more than 400 KC-135s.

Do such innovative contracting procedures save money? The GSA asserts that the use of its schedules is cheaper than classic ID/IQ contracts because of discount pricing for volume purchases and lower administrative costs.¹⁵ Use of the GSA schedules saved customers an estimated \$4 billion between 2005 and 2008.¹⁶ Multiple award ID/IQ contracts such as TLSP and SeaPort-e use similar methods to achieve savings on products and services. In its first year, SeaPort-e saved the Navy more than \$26 million.¹⁷ DLA's initial business case analysis for its Aviation Aircraft Structure Component Prime Vendor program, a multiple award contract with four participating teams, estimated potential savings of more than \$5 million a year.¹⁸ A comprehensive assessment of the potential savings from these types of contracts would have to include not only the reduced costs of goods and services, but cost avoidance to the government as a consequence of lower administrative overhead, a reduction in inventories, fewer warehouses and less manpower.

As the defense department struggles to meet the competing demands for effectiveness and efficiency, a part of the solution to this challenge is the implementation of innovative approaches for supply chain management. The efficiency of a public company's supply chain can make an

¹⁴ Michael Hutchison and D. Scott Welker, "Enhanced Army Global Logistics Enterprise (EAGLE)," briefing by Army Sustainment Command and Army Contracting Command

¹⁵ <http://www.gsa.gov/graphics/fas/WhyanAgencyShouldUseGSASchedules.pdf>

¹⁶ Government Accountability Office, "Data and Oversight Problems Hamper Opportunities to Leverage Value of Interagency and Enterprise-wide Contracts," GAO 10-367, April, 2010, p. 34

¹⁷ Kathleen Monahan, et al, *SEAPORT: Improving Services Acquisition through Innovation and E-Business*, briefing, January 30, 2002

¹⁸ Cathy Hopkins, "DLA Aviation strategic contracts improve customer support at reduced cost," DLA Public Affairs, November 29, 2011

enormous difference to its financial success. In general, the cost of a product supply chain has a greater impact on company cash flow and profits than labor or materials costs. A highly efficient supply chain results in reduced working capital requirements, improved asset utilization, lower inventories, reduced operating costs, improved on-time delivery, lower order error rates and lower transportation costs. According to a variety of sources, supply chain efficiency measures typically can yield double digit savings in the categories identified.

Conclusions

The Department of Defense faces an enormous challenge; in an era of neither war nor peace the department must balance competing demands for efficiency and effectiveness in defense acquisition and sustainment. Given the evolving international security environment and continuing uncertainty regarding where, when and how the U.S. military may become engaged in conflict, this balance must be dynamic rather than static. As the new defense strategy suggests, the acquisition system may be called on to support the reconstitution of a larger force structure.

There are many examples of innovative approaches to procurement and supply chain management that can serve as the basis for a 21st Century acquisition system that is smart, simple, flexible and relatively cheap. Many of these solutions were developed in response to the demands of two simultaneous, evolving conflicts. These solutions have also demonstrated the ability to reduce indirect costs associated with management and oversight of these activities, as well as the costs of products and services.

Whether it is performance-based agreements, the GSA schedules, prime vendor arrangements, TLSP, EAGLE or SeaPort-e, it is possible to improve performance, reduce lead times and save money. These new approaches demonstrate that it is possible to apply commercial best practices to the management of large, ongoing DoD acquisition and distribution programs. These approaches share some common features:

- Consolidation of numerous contracts and reduction in redundant activities
- Increased competition
- Simplified contracting mechanisms
- Improved access to commercial and niche vendors
- Reduced need for inventories and infrastructure
- Enhanced oversight
- Greater responsiveness to customer requirements
- Reduced costs

One of the most important features of programs such as TLSP is their ability to provide for effective and responsive contracting at the same time they require continuous competition. The balance is achieved by creating long-term, multiple award contract vehicles or Basic Ordering Agreements that provide customers the



Access to advanced diving gear is increasingly important to Navy SEALs.

assurance that the winning contracts possess the experience, size, flexibility and resourcefulness to meet changing demands. Competition is focused where it belongs: at the product or service level. As the rapid pace of technological change continues in so many sectors, forcing the locus of competition down to the lowest level possible is an imperative.

These same programs also allow winning contractors to provide a bridge between the government customers and the commercial vendor base. The unique and burdensome features of the federal acquisition system act as a barrier to the ability of government entities to access parts of the commercial vendor base and as a deterrent to those vendors seeking government contracts. Under TLSP and similar programs, the managing contractors are responsible for the interface with government, allowing the relatively unencumbered procurement of commercial products and services.

Applying innovative, largely commercially-based, approaches to acquisition also can help solve DoD's perennial problem with supply chain management. It is time to admit that the government lacks the experience, skills, incentive structures and tools to provide world-class, end-to-end supply chain management. To the maximum extent possible, supply chain management should be turned over to the private sector.

The Department of Defense needs to examine its acquisition portfolio with an eye to expanding the use of proven, innovative procurement and supply chain management techniques. For example, DLA's TLSP system could be expanded to other types of procurement such as communications systems, and soldier clothing and individual equipment. DoD should also seek to expand the current, limited use of performance-based logistics contracts.

Glossary

CPFR – Collaborative Planning, Forecasting and Replenishment
DLA – U.S. Defense Logistics Agency
DoD – U.S. Department of Defense
EAGLE – Enhanced Army Global Logistics Enterprise
F&ES – Fire and Emergency Services Safety and Rescue Equipment
GAO – Government Accountability Office
GSA – Government Services Agency
ID/IQ – Indefinite Duration / Indefinite Quantity
IED – Improvised Explosive Device
IT – Information Technology
MRAP – Mine Resistant, Ambush Protected

MRO – Maintenance, Repair and Operations
O&S – Operations and Support
PBL – Performance-based Logistics
REF – Rapid Equipping Force
RFI – Rapid Fielding Initiative
SeaPort-e – SeaPort-Enhanced
SOCOM – U.S. Special Operations Command
SOE – Special Operations Equipment
SSES – Survival, Support and Equipment Systems
SPAWAR – U.S. Space and Naval Warfare Systems Command
TLSP – Tailored Logistics Support Program
VICS – Voluntary Interindustry Commerce Solutions Association



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