

Defense Supply Center Richmond Develops Supply Chain Alliances

Glenn L. Starks

The environments in which defense agencies exist require not only dynamic approaches to enhance operational support of warfighter needs today, but also innovative strategic initiatives to support their strategic missions. The Defense Logistics Agency (DLA) has established strategic supplier alliances (SSAs) with 29 of its major hardware suppliers to meet both of these needs across its aviation, land, maritime, and construction and equipment supply chains. The Defense Supply Center Richmond (DSCR), DLA's aviation supply chain lead, leads the agency in this effort and has successfully established strategic relationships with 18 primary suppliers of aviation items. These SSAs have resulted in substantial benefits to DLA, the suppliers, and—most important—to DLA's aviation customers.

The agency is now expanding its strategic relationships to include "Tier II" suppliers. These supply chain alliances (SCAs), are being established with DLA suppliers that are not original equipment manufacturers (OEMs) but still collectively comprise a substantial portion of DLA's obligation dollars and provide critical items to the agency's customers. SCAs are an example of how DLA is applying the tenets of supply chain management in its supplier operations areas to establish effective approaches to customer support. SSAs and SCAs are particularly innovative because they include both DLA- and Service-managed items (consumables and reparable); require suppliers to adhere to long-term contracting performance metrics; and incorporate best commercial practices to achieve these performance metrics, which require DLA and its suppliers to employ improved business processes to achieve desired performance levels.



DLA's development of supply chain alliances is the logical evolution of developing strategic partnerships with its suppliers.

Strategic Supplier Alliances

SSAs are long-term partnering agreements between DLA and its major suppliers—predominantly OEMs—that leverage DLA's buying power across a very large population of items. They enhance customer support through an agreement to place the sole-source items provided by a vendor under long-term contracts with performance metrics. A competitive long-term contract may also be considered part of the alliance during the life of the contract. Just as is required for SSA sole source contracts, competitive contracts must also contain performance metrics and include items managed across the agency (that is, they include items managed by more than just one DLA inventory control point to be considered a "corporate" contract). A signed charter outlines the overall terms of the relationship and is ratified by senior level officials of each party

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in the relationship. Some of these terms are expressed as strategic qualitative goals: for example, cost management, sharing of resources, streamlining acquisition processes, improving communication among stakeholders, and improving business processes. The corporate contracts contain clauses and terms and conditions that outline the specific performance metrics to be achieved in support of the qualitative goals (for example, achieving 99 percent on-time delivery for all orders, shipping all high priority (Issue Priority Group One) requisitions within 24 hours, and reducing production lead-times by 25 percent). These SSA relationships include DLA and the supplier; some include the Services; and others include the Defense Contract Management Agency.

DLA has assigned a supplier relationship manager for each SSA to oversee the operational and strategic progress of the partnership, including monitoring performance and metrics, and to continually develop strategies to expand the relationship by adding more items to existing long-term contracts and awarding new contracts to additional company divisions. A joint steering group oversees each SSA's operational performance and develops improvement plans. The group is co-led by the supplier relationship manager and his or her assigned supplier counterpart. Both are at mid-level management positions and possess the responsibility and authority to make and execute decisions to improve the alliance. The group includes operational and functional members from the government and the supplier's organization who are directly involved in the day-to-day functions of the alliance (such as the post award administrator of each contract and technical specialists), or who provide support (such as a pricing analyst or systems expert). The joint steering group reports to an executive committee that predominantly sets the strategic vision for the alliance and is composed of command- and/or senior-level officials.

At least twice a year, DSCR hosts a supplier round table to which each supplier sends a representative. This forum allows all the SSA partners to share concerns and discuss lessons learned; and most important, it allows the government and suppliers to develop operational and strategic process improvements that benefit all of the alliances. Some round tables are held at DSCR but most are held at varying supplier sites. DSCR also holds separate meetings with each supplier to discuss specific performance metrics, issues, and improvement plans.

Alliances Realize Measurable Benefits

The number of items on DSCR's SSA long-term contracts has substantially increased over the last few years. For example, 11 of the 18 SSAs were completed (i.e., had signed charters and at least one awarded corporate contract with performance metrics) by August 2003. At that time, 19,430 items were on SSA long-term corporate contracts. In May 2006, these same 11 SSAs had 39,480 items on corporate contracts. In total, the 18 SSAs have approximately 41,749 items on contracts. This growth has been achieved by adding additional NSNs (National Stock Numbers) under the same CAGE (Commercial and Government Entity) code to existing contracts and establishing new contracts with additional CAGE codes. The supplier relationship managers and suppliers work closely to prioritize the CAGE codes that will be brought under the alliance and the NSNs that will be added. Strategies are also developed to complete the pricing process as efficiently as possible, as this is often the lengthiest component in adding large numbers of items to long-term

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contracts. Many of the alliances have established forward pricing agreements where DSCR and the supplier develop a prioritization scheme to price items over a specified period of time. This scheme is based upon adding items that are most important to customer support first.

A performance analysis of the items on the SSA contracts shows that substantial quantitative improvements have been achieved. This analysis compared key metrics for these items before they were placed on SSA corporate contracts (pre-SSA) to performance now that the items are on SSA contracts, as of the second quarter of fiscal year 2006 (post-SSA). The pre-SSA period consisted of analyzing contracts awarded up to three years before the items were placed on SSA long-term contracts. The post-SSA analysis looked at the most recent awards for each item on contract. On average, the administrative lead times for the items have decreased by 73.83 percent. This has been achieved by streamlining processes to award purchase requests in a matter of days (one day for items on direct delivery contracts) rather than months. The production lead times have been reduced by 12.72 percent. Because suppliers are provided forecasts for at least 12 months of expected demands and are required to establish surge plans to meet unexpected demand increases, they are better able to stabilize their production lines. The average price of the items has decreased by 4.63 percent (considering an annual inflation rate of 3 percent). Long-term relationships produce price stabilization because suppliers can establish strategic relationships with their own suppliers. Economies of scale are also gained by placing large volumes of items on long-term contracts rather than awarding individual contracts as demands arise. Since July 2002, customer-stocked backorders (awaiting stock to ship to the depot to fill customer order) have been reduced by an average of 72 percent. Customer requisitions are filled more expeditiously because of improved forecasting and long-term relationships. Since 1999, SSA long-term contracts have also resulted in DSCR inventory savings of \$72.9 million. Reduced lead times allow DLA to maintain smaller quantities of stock in storage depots. DLA is also able to obtain materiel in a more just-in-time fashion, rather than having to rely on stockpiles in its depots.

Establishing these relationships has also produced substantial qualitative results. Perhaps the most important of these has been the development of strategic relationships. These relationships have assisted in breaking down barriers of communication, improved business processes for suppliers and the government, and helped eliminate adversarial relationships. It has also educated private and public sector employees on the processes and business practices utilized in each organization. For example, suppliers become better educated on the procurement regulations to which DSCR must adhere. Government employees gain greater insight into a supplier's production

process. It has improved DLA's relationship with the Services as they have become partners on DSCR's SSAs. Another important result has been the adoption of best commercial practices by the government through lessons learned by working closely with suppliers. Suppliers share information on how they interact with their own suppliers and what Lean initiatives they employ to improve their processes, and they provide recommendations on government improvements.

Moving Toward Supply Chain Alliances

DSCR determined its SSA partners by analyzing DLA's obligations for aviation items over a three-year period. Those vendors that represented the majority of spending were considered the prime candidates for aviation SSAs. Other factors included in determining these partners were their support to major aviation weapon systems, how they were organized nationally and internationally, and their willingness and ability to develop strategic relationships across their various divisions. The predominance of the SSAs are with OEMs. Others were developed because a vendor provides parts critical to one or more aviation systems.

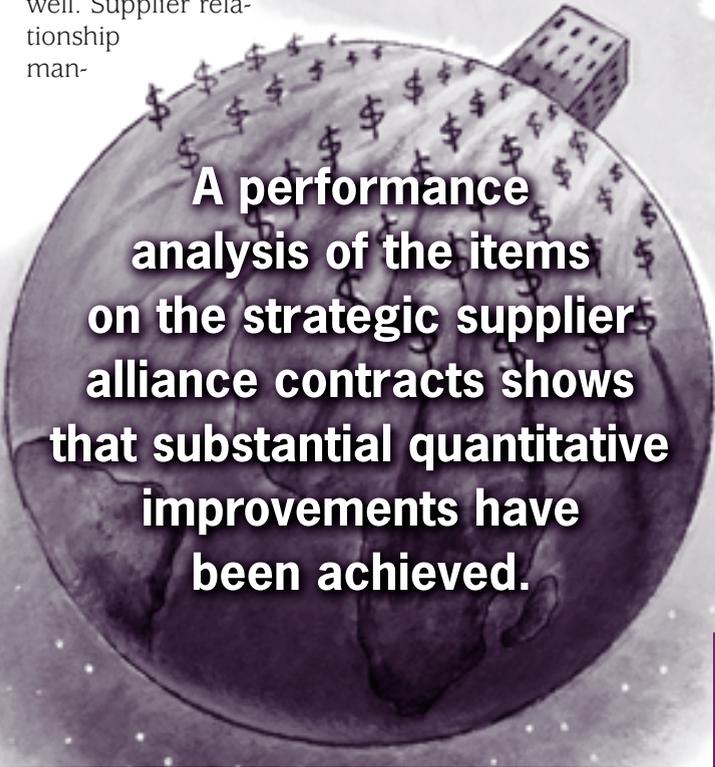
SCAs are now being established with Tier II suppliers. These partners provide a greater percentage of competitive items per vendor than SSA suppliers or are non-OEM sole-source providers of strategically important items. As with SSAs, DSCR is including items managed by all three DLA hardware inventory control points on SCA corporate contracts as well as items managed by the Services (consumables and reparables). Performance metrics are being put in place on these long-term contracts as well. Supplier relationship man-

agers have been assigned to each to oversee the operational process and the achievement of performance metrics and strategic goals. Nine other SCAs have either been put in place or are planned by DLA's other supply chains. DLA's goal is realize the same quantitative and qualitative improvements with SCAs as have been achieved with SSAs.

The following are just some of the steps being taken to improve the alliances (both SSAs and SCAs). Metrics to measure performance are continually being improved to provide better analysis of the results of partnerships. Improving these metrics will enhance DLA and supplier business processes as well as the monitoring of customer support improvement. DLA and its alliance partners are also developing improved processes and automation to enhance joint collaborative forecasting. For example, DLA's business system modernization systems will greatly enhance systematic collaboration. As discussed earlier, the alliances are being expanded by adding new items and new CAGE codes. DSCR is continually analyzing obligation data to identify candidates for new supply chain alliances. Finally, various types of long-term contracts are being added to the alliances, including competitive contracts and performance-based logistics contracts. These alliances were developed to bring all business with each supplier under the umbrella of the charter. One of the strategic goals of each is to expand these relationships by continually developing unique contracts to enhance the partnership and improve support to the weapon systems these Alliances support.

A Logical Evolution

DLA's development of supply chain alliances is the logical evolution of developing strategic partnerships with its suppliers. Since the Services and the Defense Contract Management Agency are also part of most of these alliances, the partnerships are becoming a catalyst for an integrated DoD effort to interface with major suppliers. DLA is also looking at how strategic relationships can be developed with smaller suppliers, including small businesses. The next decade will be challenging for DLA as it faces the major changes involved in completing its business system modernization reengineering effort, reorganizes in response to base realignment and closure decisions, continues to adapt to the ever-evolving missions of the military services, and positions itself to support new weapons that are replacing legacy systems. By developing such innovative initiatives as SSAs and SCAs, the agency will succeed in meeting these challenges and continuing to maintain an agile workforce ready today to meet the challenges of tomorrow.



A performance analysis of the items on the strategic supplier alliance contracts shows that substantial quantitative improvements have been achieved.

The author welcomes comments and suggestions. Contact him at glenn.starks@dla.mil.