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8 July 2003

MEMORANDUM FOR THE UNDERSECRETARY OF DEFENSE (ACQUISITION,
TECHNOLOGY AND LOGISTICS), CHAIRMAN,
INFRASTRUCTURE STEERING GROUP

Subject: Transformational Options for BRAC 2005

1. Your May 23, 2003 memorandum requested that the Supply and Storage Joint Cross-Service Group (S&S JCSG) identify key transformational options for stationing and supporting forces and functions that we believe will rationalize our infrastructure consistent with defense strategy and contribute to increased efficiency and effectiveness. Members of the S&S JCSG were asked to consider this request and submit their proposal(s). Attached is a compilation of our thoughts. In some instances the Services and the Defense Logistics Agency (DLA) are already implementing the concepts to varying degrees.
2. In addition, we were asked to consider and recommend private and public sector organizations from which DoD might consider soliciting additional ideas. We recommend you consider General Motors (support to their dealers), Dell Computer (supply chain/manufacturing component management), Boeing (considering consolidating to a single inventory control points), and IBM (overarching logistics philosophy).

A handwritten signature in black ink, appearing to read "G. S. Holder".

G. S. HOLDER
Vice Admiral, USN
Director for Logistics, J-4
Chairman, Supply and Storage, Joint Cross-
Service Group

Copy to:
S&S JCSG Members
S&S JCSC Alternates
Enclosure

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Transformational Options for BRAC 2005 submitted by the Supply & Storage Joint Cross-Service Group

Shifting the BRAC Focus

The business strategy of the Department of Defense (DoD) focuses almost exclusively on efficiency in the conduct of business operations. Almost no emphasis is given to devising effective business strategies. This drive to the bottom line assumes DoD already has an effective strategy (i.e., the department is pursuing only the business functions that provide it with an advantage) and it merely needs to fine-tune operations. This is also the inherent assumption behind the traditional Base Re-Alignment and Closure (BRAC) process.

Incorporating a strategic business analysis into the BRAC process would provide the opportunity to examine what business functions DoD should be engaged in so that they align with Defense Strategy, rather than examining how to trim capacity on what is currently being done. This would also afford the department the opportunity to focus on aggregate efficiencies instead of isolated efficiencies and avoid potential adverse strategic outcomes that can arise from tactical pursuit of cost reductions at the business unit level.

In contrast to DoD, private firms seek first to gain a competitive advantage. Decisions of what to do internally and what to outsource are made in light of strategic objectives. While DoD emphasizes cost when making these decisions, business management literature emphasizes that lower costs should not be the primary or the only goal of business strategy and outsourcing. Michael Corbett [1995] lists the following goals in descending order of importance.¹

1. Improving Business Focus
2. Gaining Access to Superior Capabilities
3. Accelerating Re-Engineering Efforts to Reduce Cycle Times and Improve Quality
4. Sharing Risks
5. Reducing Operating Costs
6. Converting Capital Investments in Non-Core Functions into Operating Expense
7. Gaining Better Control Over Functions That Are Not Meeting Performance Goals or Customer Expectations

While traditionally BRAC has only focused on item five, the process could be revised to take the other six elements into account. This would entail an

¹ E. Pint, *Strategic Sourcing: Theory and Evidence from Economics and Business Management* (Santa Monica CA, Rand, 1997), p.25

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examination not only of what infrastructure DoD needs to perform current business functions but also what business functions should DoD be doing in the first place.

Establishing a single inventory control point (ICP)

While the Navy has a single inventory control point located at two sites, there is an opportunity for significant consolidation of ICPs by all Services. For example, the Air Force has three independent ICPs, each located at their Air Logistics Centers. Consolidating them to a single ICP would allow for:

- Reduced overhead
- Reduced headquarters staffing
- Allow for streamlining of business practices

However, such a course of action may also include some costs and loss of efficiencies, including:

- Union issues
- Loss of skilled workforce
- Loss of direct interface with customers located at/near ICPs that will no longer exist

Each Service would be encouraged to consider this course of action to determine if the projected benefits would be realized without jeopardizing logistics support and military readiness. If this option proves effective over the course of time the DoD is encouraged to consider further consolidation to a single DoD-wide ICP.

Realignment of Defense Logistics Agency (DLA) Distribution Activities

DLA is currently realigning their distribution activities to support the Industrial Transformation Strategy of the Military Services; executing the National Inventory Management Strategy (NIMS) to extend DoD Supply Chain of consumable items beyond the wholesale level; and implementing the "Hub and Spoke" distribution concept.

The NIMS promotes extending supply chain management of consumable items beyond the wholesale level in order to provide products and services to the point of consumption. This effort will merge distinct wholesale and retail inventories into a national inventory that can be managed in a more integrated and efficient manner. This will reduce redundant inventory levels and information systems thereby lowering overall DoD inventory costs.

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The "hub and spoke" distribution process will use speed and responsiveness to move critical supplies under positive control from the source to the customer. Stock positioning decisions will be made to move critical parts closer to the customer, significantly increasing readiness, reducing order ship time and allowing Service owned retail level inventories to be further reduced.

They are also establishing a single Weapons Systems ICP with regional sites at Columbus, Richmond, and Philadelphia (this may provide a tie-in to the single Service ICP concept discussed above).

Establishing an Integrated Common Identification System

Regardless of the end result of BRAC process, if the Supply and Storage infrastructure is "right sized" without having an integrated common tracking, marking, burning, interrogating, receipting and distributing process then infrastructure is reduced without gaining any effectiveness in our logistics business. An overarching Radio Frequency (RF) capability, interfaced with the Global Information Grid, integrated in the distribution pipeline that provides real time visibility from source of supply to the soldier at the end of the last tactical mile should be established. This capability should also be built into the redistribution/retrograde pipeline to ensure materiel flow is as effective moving out of theater as it will be moving forward.

This overarching RF architecture must also be integrated into the financial community. Given that our working capital fund (WCF) structure is dependent on sales, the velocity of which we can move materiel has become faster than the soldiers ability to input receipts, creating not only backlog but the "loss of sales" jeopardizes the WCF. These disconnects across the logistics and financial community, particularly as we look at joint and combined operations, must be closed. To better facilitate this effort recommend that it be coordinated with the Industrial, Technical, and Headquarters and Support JCSGs.

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