

2006 Land & Maritime Supply Chains Business Conference & Exhibition

Challenges and Opportunities Government and Industry



29 August 2006



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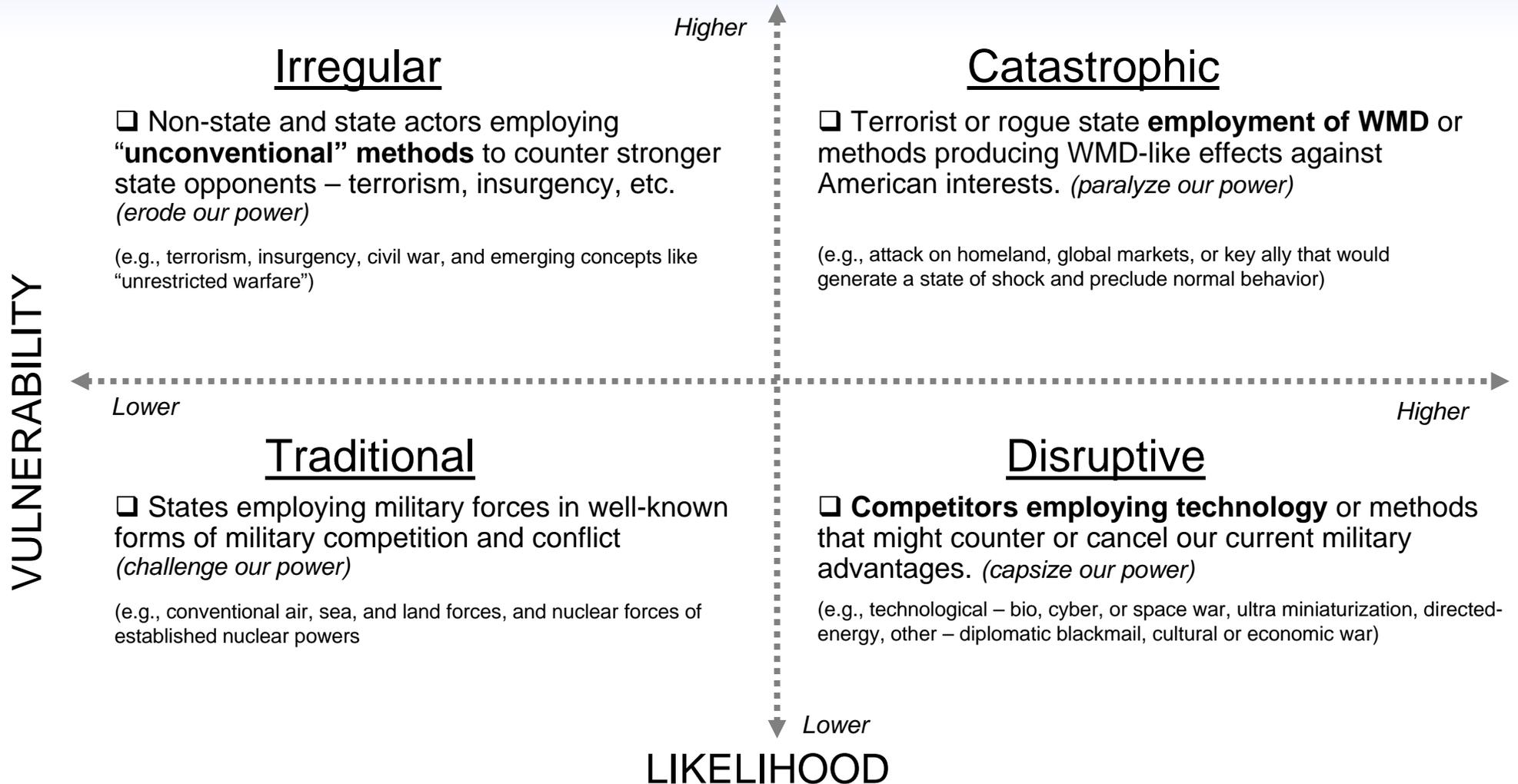


Bottom Line Up Front

- New threat emergence requires new capabilities
- Fiscal pressures are increasing, complicating our ability to:
 - Deliver new capabilities, while
 - Sustaining readiness and
 - Fighting a war (and resetting thereafter)
- Government/Industry partnering essential to developing solutions



The New Threat Environment

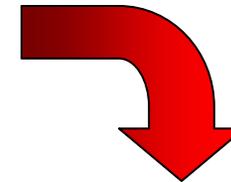


Requires a complex combination of capabilities to meet the threat

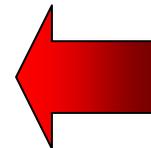


CNO's "Top Three"

- **Sustain Combat Readiness**
- **Build a Fleet for the Future**
 - Quadrennial Defense Review (QDR)
 - Base Realignment and Closure (BRAC)
- **Develop 21st Century Leaders**



- *313 Ship Navy*
- *1000 Ship Navy partnership*
- *Increased GWOT engagement*
- *Navy Expeditionary Combat Command*



- QDR Priorities**
- *Defend the Homeland in Depth*
 - *Defeat Terrorist Networks*
 - *Shape the Choices of Countries at Strategic Crossroads*
 - *Prevent Hostile State and Non-State Enemies from Acquiring WMD*
- Follow-on Roadmap**
- *Building Partnership Capacity*



Navy Strategic Plan

Desired Effects ...

- Dominate littoral waters
- Influence events ashore
- Provide unique maritime capabilities
- Maintain persistent forward presence
- Strengthen alliance w/ strategic partners
- Shape / align shore infrastructure
- Build a Naval force for tomorrow

Riverine

*Civil
Affairs*

*1000 ship
Navy*

NAV2030

*Joint Logistics
Engagement*

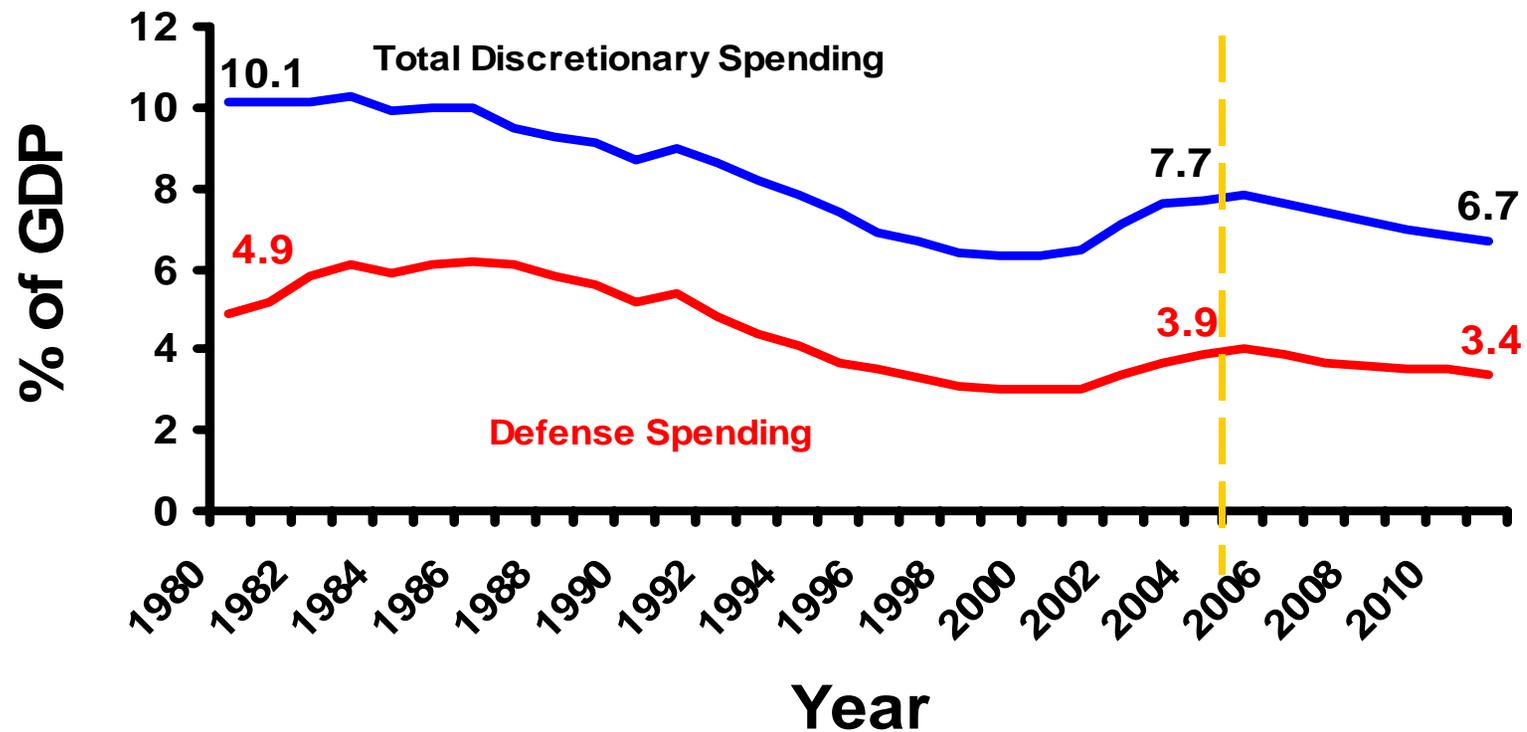
*313 future
force structure*



External Drivers

Economic Factors

Defense spending parallels total discretionary spending

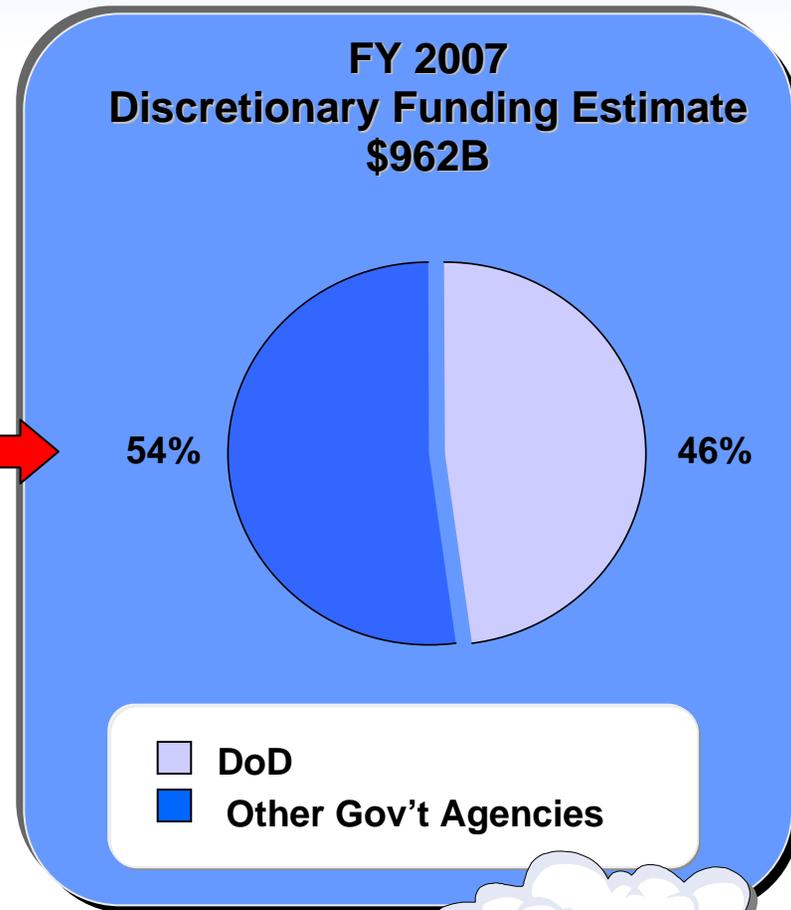
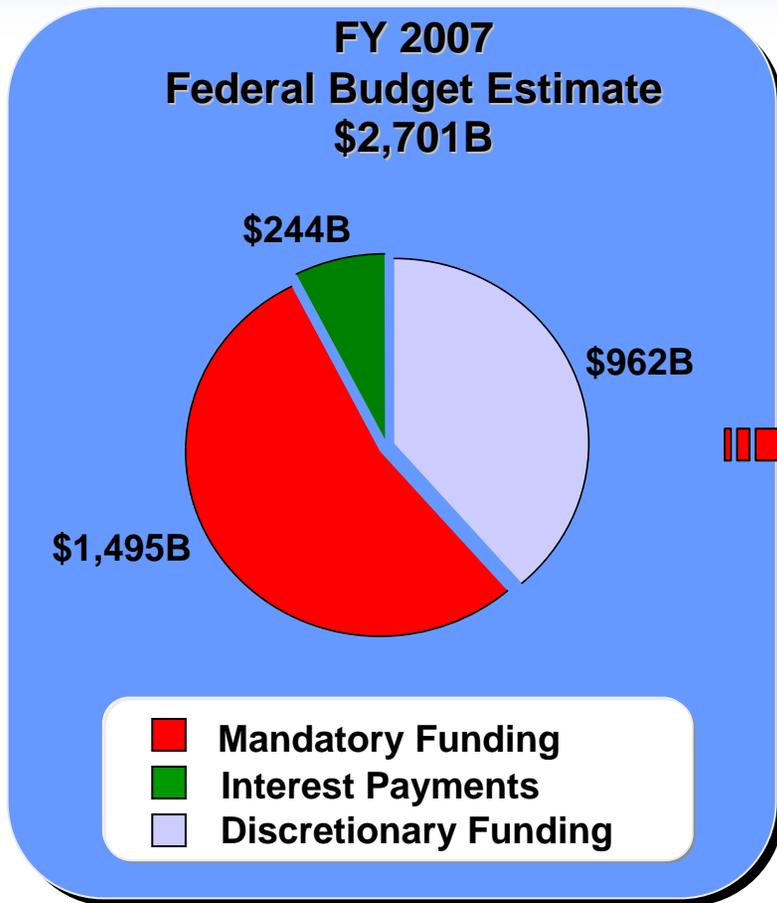


Source: CBO 31 AUG 05



Federal Budget Reality

President's Budget Request 2007



Competing Priorities:

- DOD Emergent
- Homeland Security
- Social Security
- Medicare
- Medicaid
- Prescription Drug Benefit

Projected deficit
~\$390B

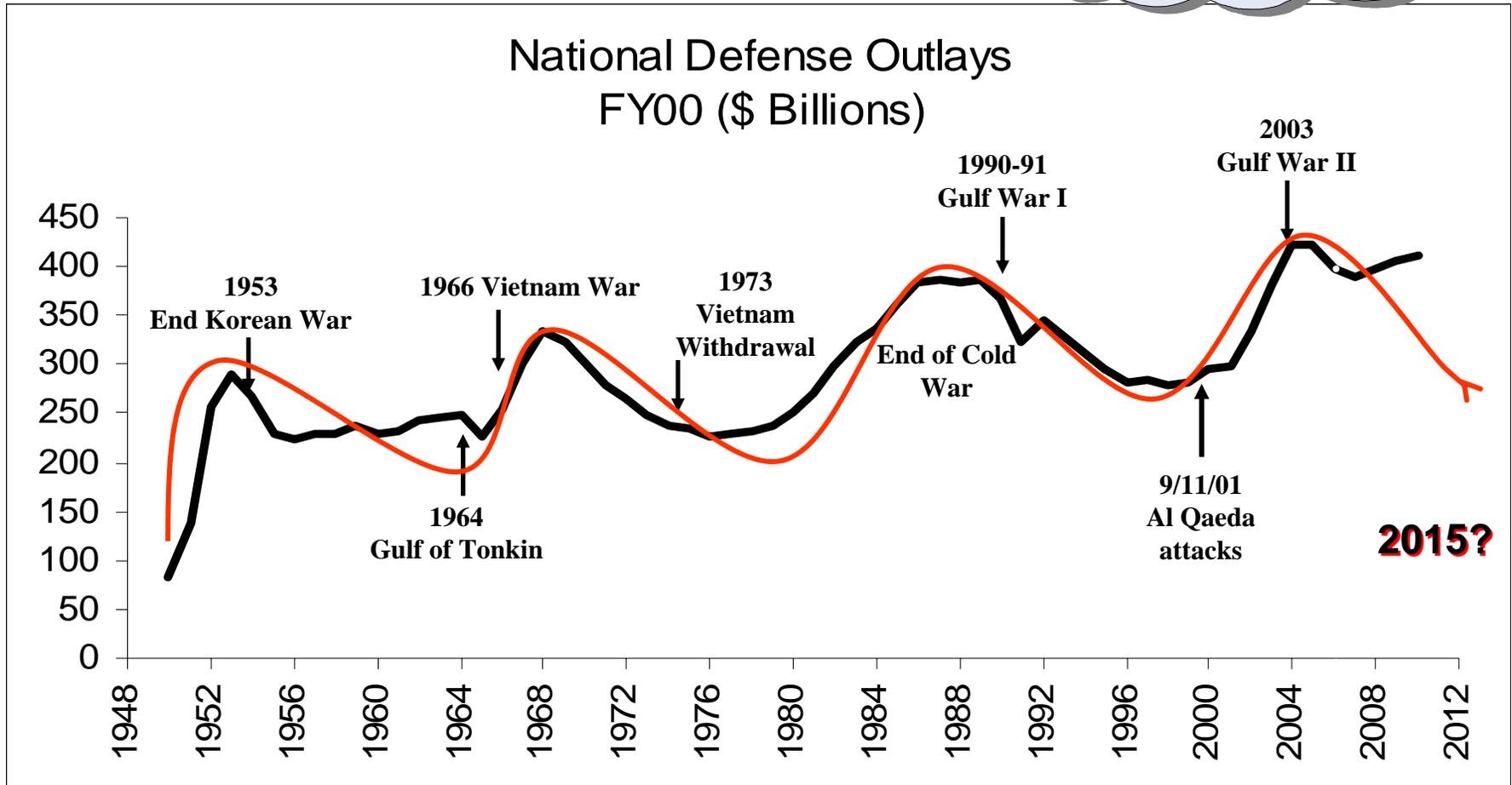
*** CBO projects mandatory funding will grow by \$1.4 trillion by 2015**



Internal Drivers

National Defense Outlays

Outlays expected to drop 13% by 2011



Note: Outlays lag budget reductions by about 2-4 years

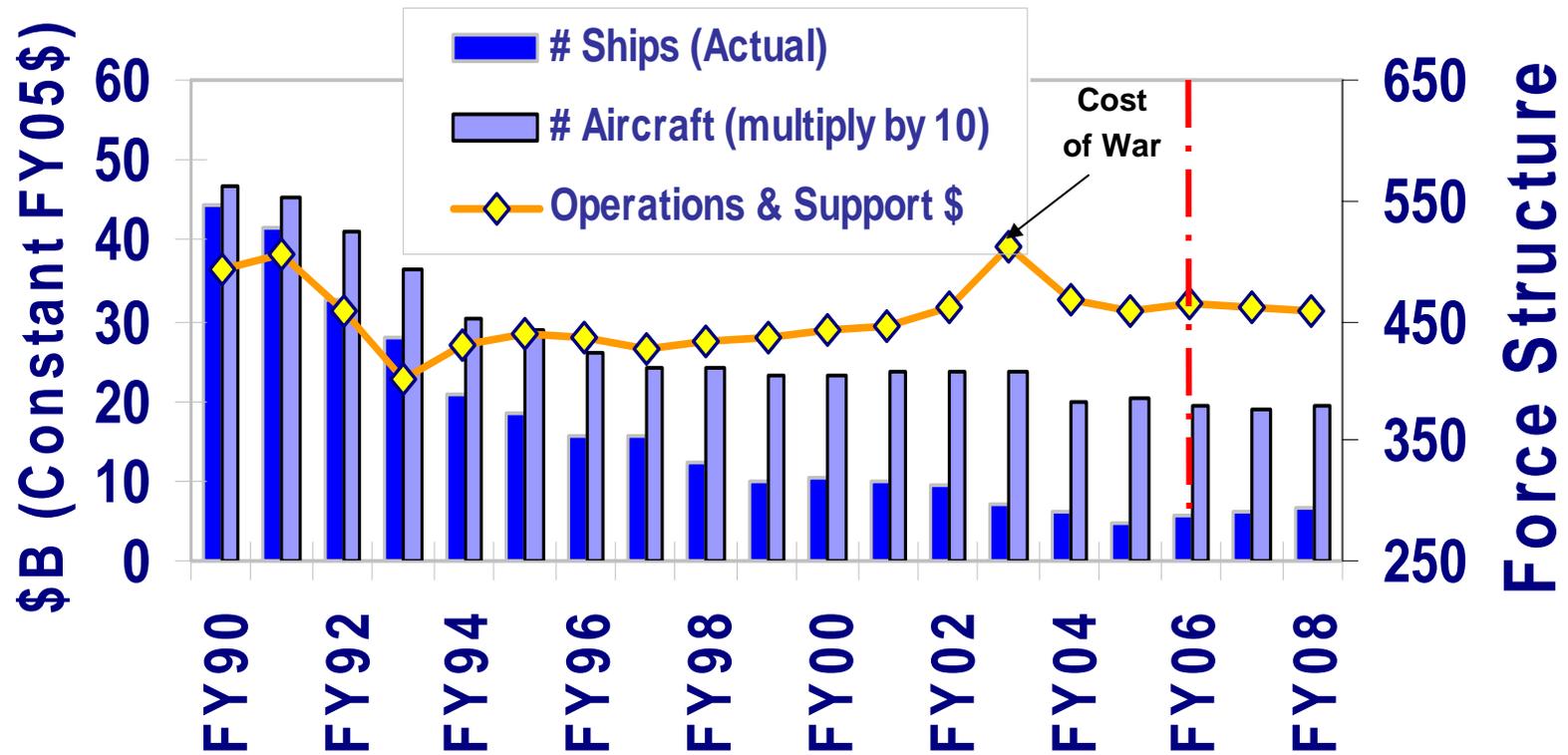
Source: Library for Integrated Learning and Technology, Illinois State



Internal Drivers

Operations & support costs rising

O&S cost
grew 10% from
FY00-FY05



Recapitalization investment at risk!

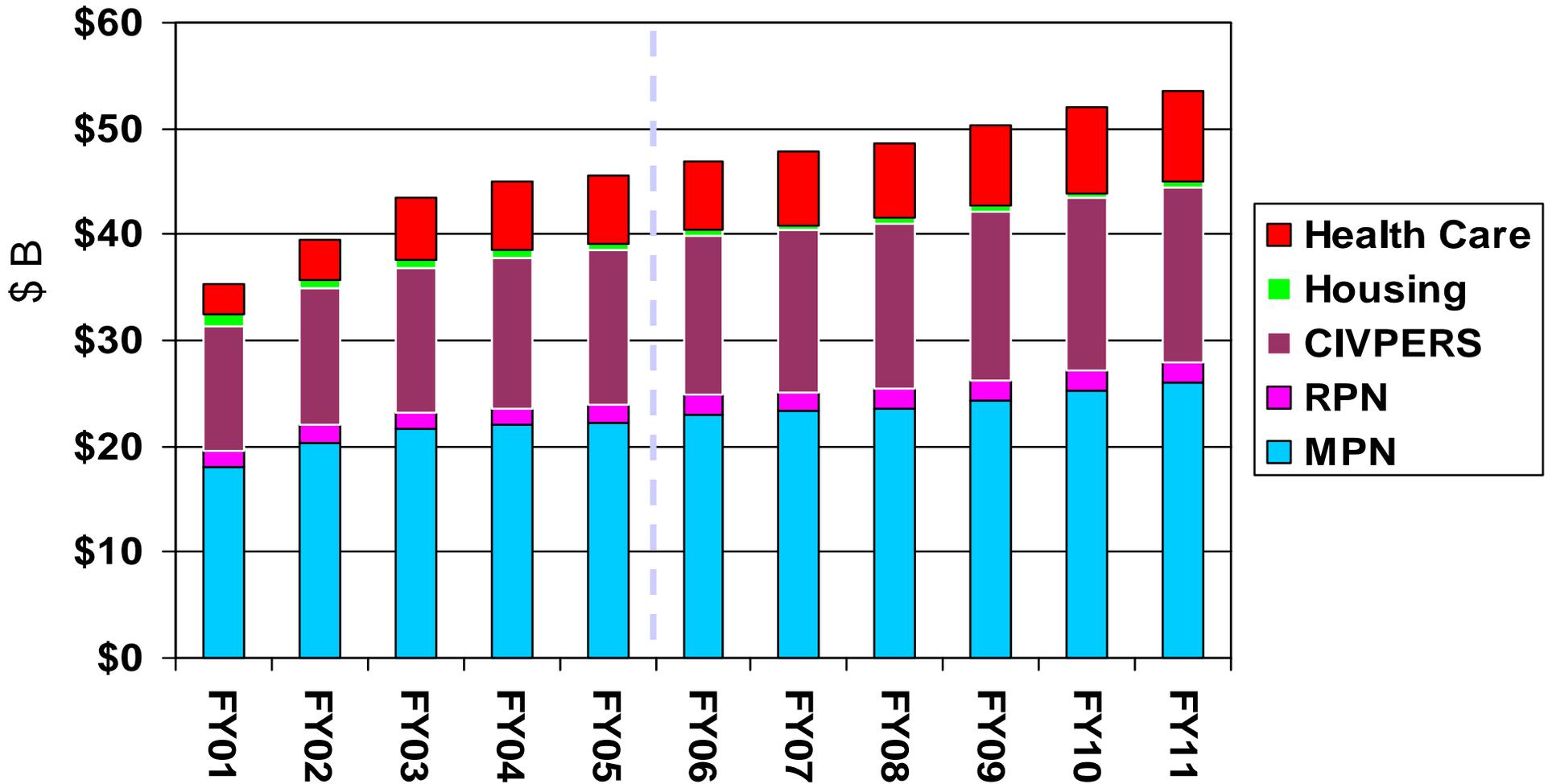


Internal Drivers

Navy Spend on People

FY06-11 has net costs growing another 14%

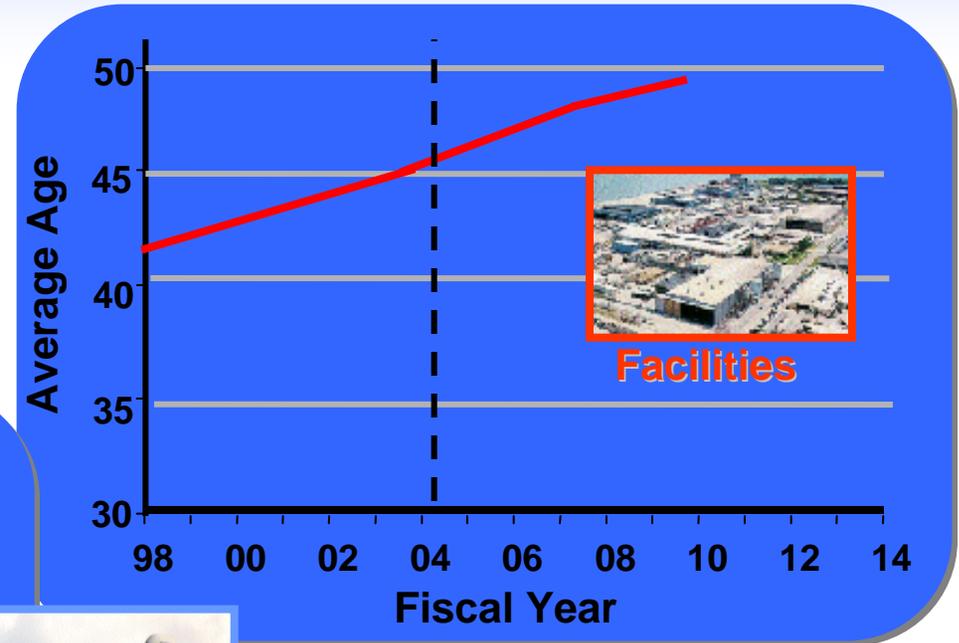
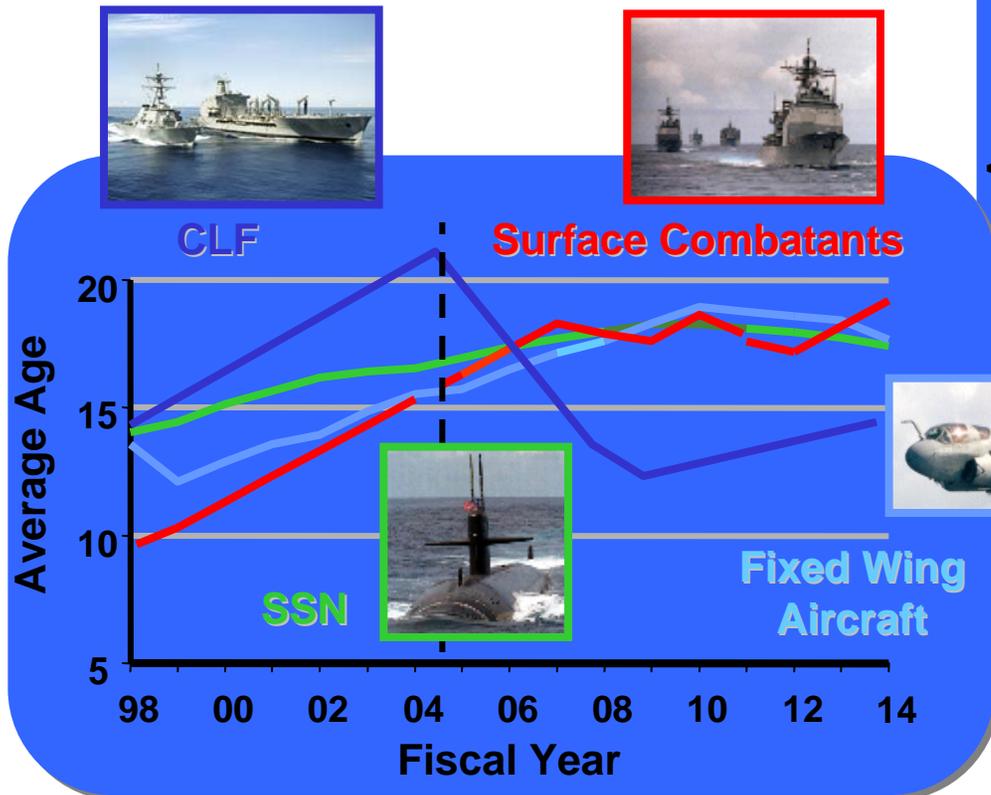
91-05 costs up ~20% despite manpower reductions of ~40%





Aging Force Structure and Facilities

Under investment in new acquisition/modernization...



...Results in aging Force Structure

Trends unlikely to change without dramatic action



The Environment We Face

Program vs Budget ...

- Federal Budget unlikely to grow
- DoD Budget expected to be under pressure for additional reductions
 - Growing entitlement programs
 - Domestic priorities
- DoD has significant internal challenges
 - Growing manpower costs
 - Aging force structure/infrastructure
 - Cost of War and Reset cost



***Burning
platform***



Getting at the Cost

Focus

- Create Enterprise framework/governance
- Change consumption behaviors
- Create cost-wise readiness
- Leveraging joint capabilities

Enterprise Initiatives

- AIRSpeed efficiencies
- SHIPMAIN
- Performance Based Logistics (PBL)
- Fleet Readiness Centers (FRC)

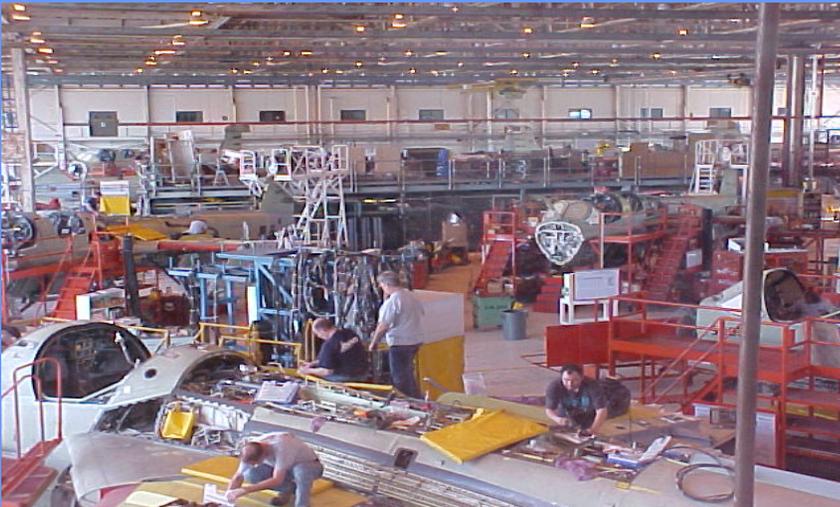




Jacksonville AIRSpeed Initiative

EA-6B re-wing production

EA6B WORK-IN-PROCESS **BEFORE**



- TAT = 594 DAYS FY03
- WIP = 16
- Walk distance 45,125 ft.

MANAGEABLE WORK-IN-PROCESS **AFTER**



- TAT = 358 Days FY05
- WIP = 8 in FY05
- Walk distance reduced to 8,670 ft

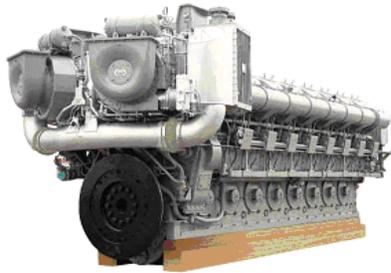
**RETURNED TWO SQUADRONS OF AIRCRAFT TO THE FLEET
INCREASED ON-TIME DELIVERIES (OTD) FROM 31% TO 83%**



Main Propulsion Diesel Engine

Maintenance Process Improvement

15



USN PC 2.5 $A_0 = .55$

USN

48 Engines

\$2,229,167 per engine/year

\$107,000,000 per year



MSC PC 4.2 $A_0 = .93-.97$

MSC

56 Engines

\$319,728 per engine/year

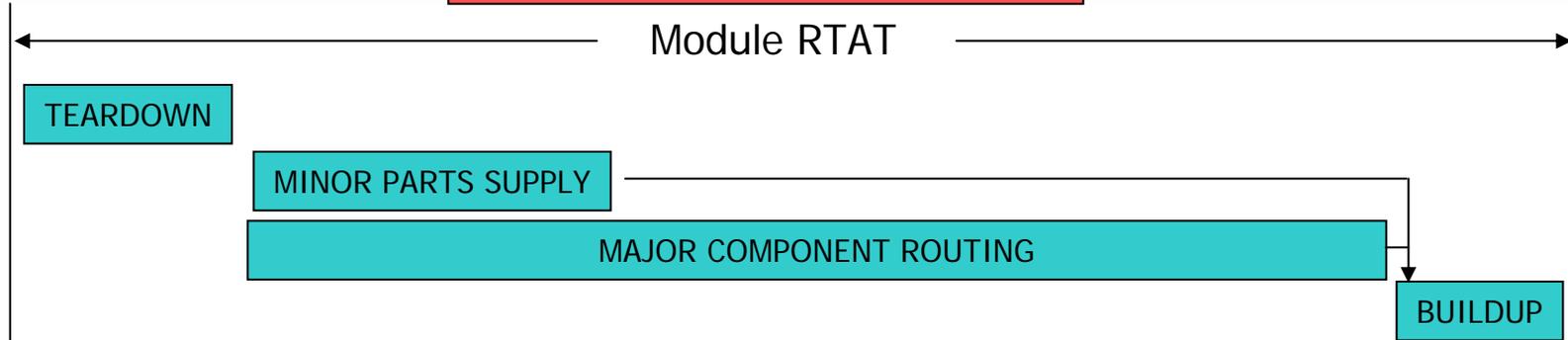
\$17,904,800 per year

Improving diesel engine readiness through fluid quality monitoring and performance monitoring

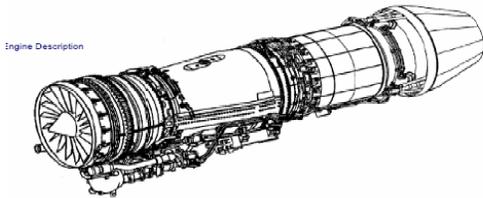
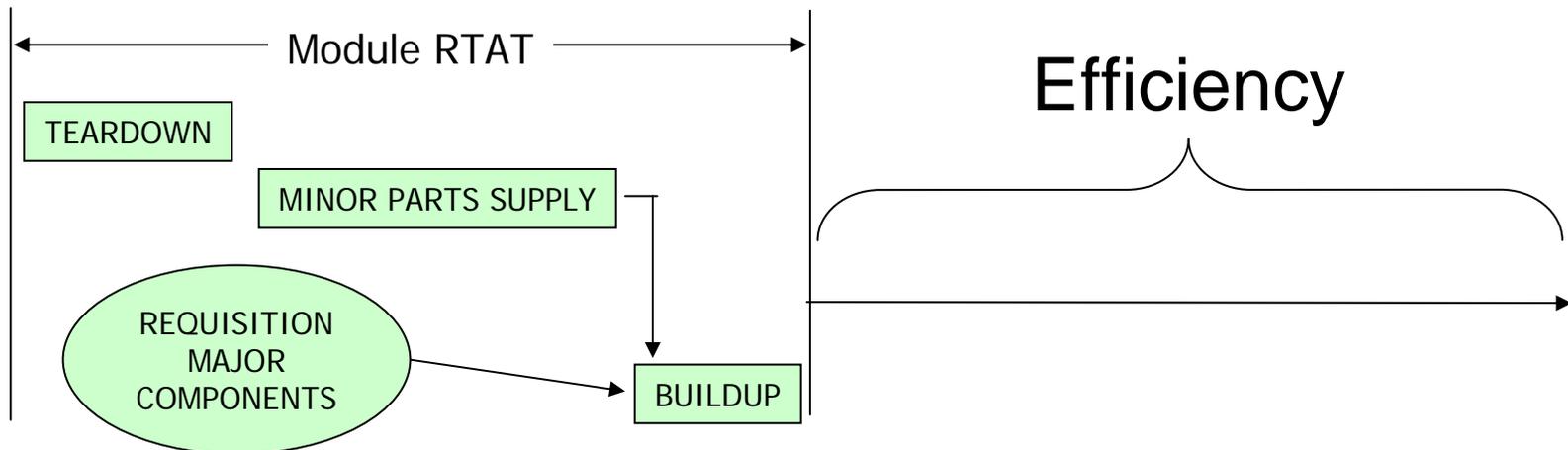


F414GE-400 Depot Component PBL

Traditional Concurrent Repair



Depot Component PBL



Better TAT through Innovation and Partnering

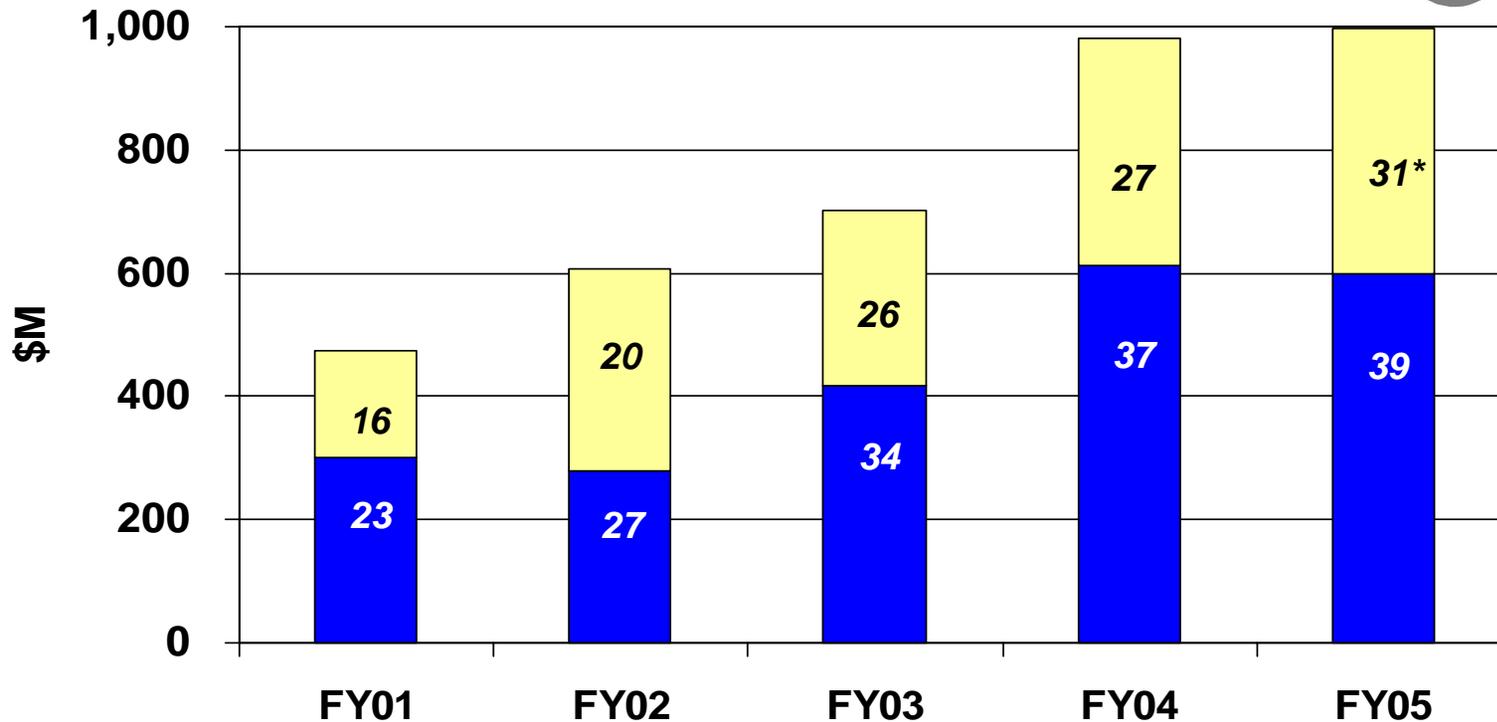


Increased Reliance on Industry Support

- Providers held to customer-oriented performance requirements
- Growing significantly in size -- \$475M FY01 to ~\$1B FY05

*Desired effect:
Improved cost-
wise readiness*

PBL Contract Totals (TY\$)



* Number of Active Contracts

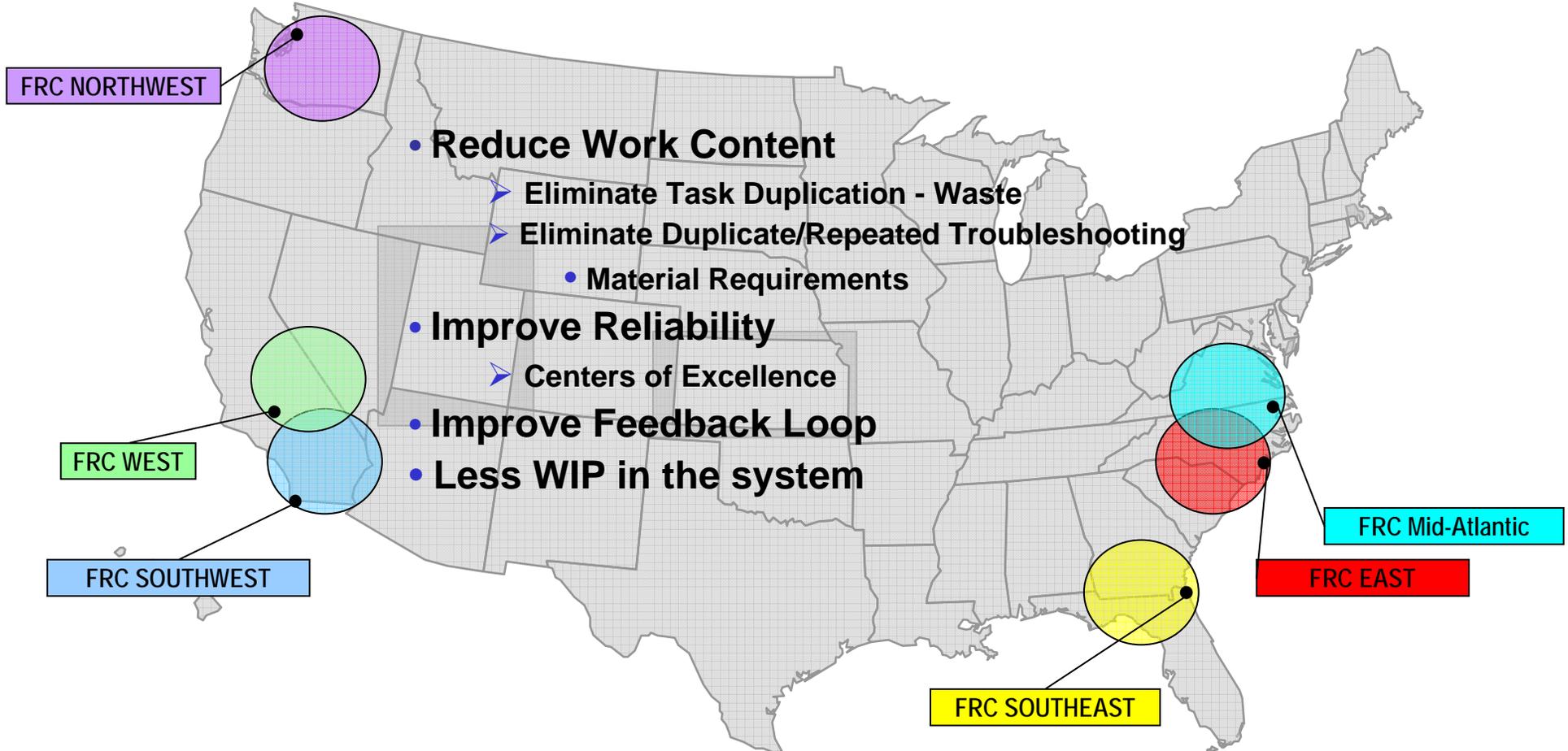
■ Aviation ■ Maritime

Source: DD form 350



Fleet Readiness Centers - FRCs

Naval Aviation Enterprise IMA / DEPOT INTEGRATION



Fleet Readiness Centers: A Transformational Initiative



Desired Outcome

- Readiness at reduced cost
- Combined Government and Industry efforts
 - Aggressive innovation
 - Shared partnerships
- Cost-wise readiness cuts both ways

We need your ideas!

Not more with less - more with what we have