



Customer Pay

A Government / Industry Partnership

Presented to the
NDIA/DSCC Land & Maritime Symposium
By
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HMMWV



Products

HUMMER H1



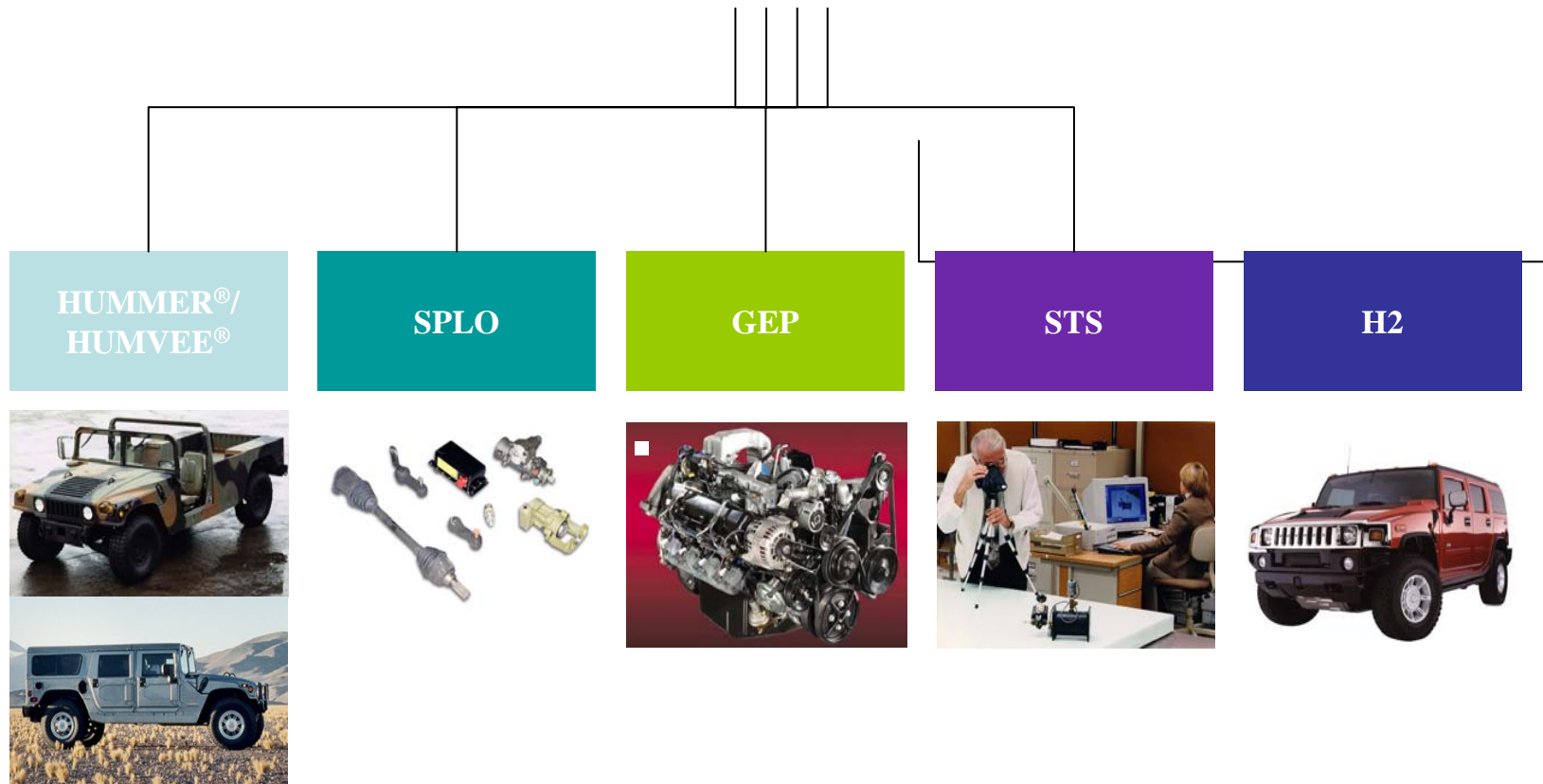
HUMMER H2



6.5 Liter



Business Units





Best Business Practices



- Collaborative Relationships
 - Strategic Suppliers Alliance
 - Corporate Contract
 - Long Term Contracts
 - Communications & Partnering
- E Business
 - Vendor Initiated Parts Re-supply
 - Direct Vendor Deliveries
- Alpha Contracting
- Lean Initiatives
 - Inventory Reduction
 - Reduced Lead times
- Performance Based Agreements
- Third Party Logistics



“Customer Pay” & HMMWV RECAP

- What is Customer Pay
- Negotiations / Contract Phase
- Implementation / Operational Phase
- Lessons Learned



Customer Pay OSD Guidance

- Mr. Wynne, Then - Under Secretary of Defense for Acquisition, Technology & Logistics
- Initial Guidance – Jan 04
- Goals:
 - Drive supply chain responsibility to vendor
 - DOD pays for materials when delivered to the end user



The Pilot Program

- Customer Pay Concept
- Performance Based Agreement
- Use E-Commerce
 - Web Portal
- Support a Major Program
 - HMMWV RECAP
 - Two Depots Letterkenny & Red River

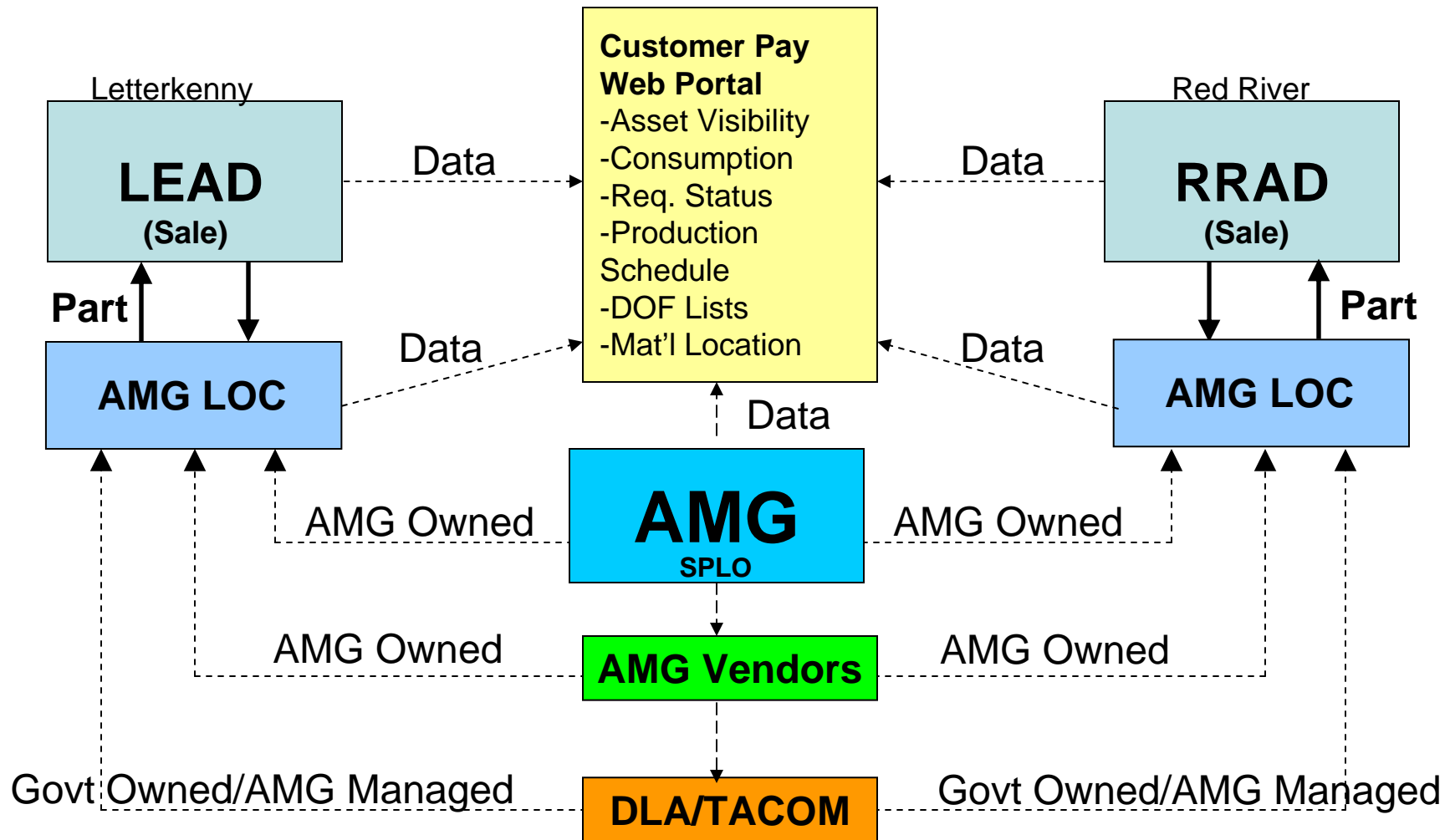


The Concept

- Establish a Performance Based Agreement (PBA) between TACOM, DLA & AMG in Support of Depot RECAP .
- Shift Materiel Management Responsibilities to AMG for: LEAD, RRAD & MMA.
- Move Point of Sale to Point of Use.
- Alpha Contract DLA & AMG.
- Information Sharing Via Web Portal



Depot Recap



DOF = Depot Overhaul Factor



CUSTOMER PAY

WEB INFORMATION PORTAL



Home MMA Material Mgt Config Mgt Documents Tools Profile Help Logoff

Supply Status Report for LEAD and RRAD [Click here](#) to download (tab delimited format)

Red: 5 days or less - Amber: between 5 and 15 days - Green: 15 days plus

** Stock Data is historical data provided by AMG; workstation, kitting and bin configurations are provided by each depot. **

NSN	NOMENCLATURE	AMG P/N	UI	OWNER	SRCE	WHOLESALE	DUE IN	LEAD				RRAD			
								DOF	AMG OH vs. 30 DAY	NO. DAYS SUPPLY	STATUS	DOF	AMG OH vs. 30 DAY	NO. DAYS SUPPLY	STATUS
[click on the NSN or Status Color for details and transaction history. Javascript must be enabled to view drill-down information.]															
2510011883228	GUARD,HOOD	EC12338923-2	EA	DLA	SMS		5809	0.360	257 / 116	30 +	●	0.500	84 / 200	13	●
2510011931807	DOOR, METAL, SWING LH	12340028-1S	AY	DLA	SMS			0.200	181 / 64	30 +	●	0.100	207 / 40	30 +	●
2510012481340	HOOD,ENGIN	000000000005716532	EA	DLA	SMS		5481	0.250	117 / 80	30 +	●	0.300	77 / 120	19	●
2510012518548	INSULATION	000000000012339044	EA	DLA	SMS			0.050	303 / 16	30 +	●	0.100	96 / 40	30 +	●
2530011856714	PISTON,DIS	000000000005578803	EA	DLA	SMS			0.010	312 / 4	30 +	●	0.800	430 / 320	30 +	●
2590012484873	ARM,CONTRO	000000000012338738	EA	DLA	SMS		13934	2.000	1123 / 640	30 +	●	2.000	314 / 800	12	●
2530013338263	CALIPER AS	000000000012342342	AY	DLA	SMS		209	1.000	1672 / 320	30 +	●	1.000	1525 / 400	30 +	●
2530013946168	PARTS KIT,	57K0275	EA	DLA	SMS			0.030	94 / 10	30 +	●	0.300	427 / 120	30 +	●
2540011766521	GUARD,SPLA	000000000012446953	EA	DLA	SMS		75	0.340	201 / 109	30 +	●	1.000	298 / 400	22	●
2540011924500	RETAINER,A	12338849G1	EA	DLA	SMS		368	0.200	172 / 64	30 +	●	0.400	496 / 160	30 +	●
2540011975448	SUPPORT,SE	12339026G1	EA	DLA	SMS		3666	0.800	392 / 256	30 +	●	0.900	164 / 360	14	●
2540012141568	PIVOT SHAF	000000000012338831	EA	DLA	SMS			1.000	671 / 320	30 +	●	0.900	102 / 360	9	●
2540013142101	ARM,REARVI	000000000012342138	EA	DLA	SMS			0.010	76 / 4	30 +	●	0.001	375 / 1	30 +	●
2590012612637	MOLDING,ME	EC12338907	EA	DLA	SMS		8098	0.560	440 / 180	30 +	●	0.500	119 / 200	18	●
2590012633254	BEZEL,AUTO	12338838-2G1	EA	DLA	SMS		7733	1.000	141 / 320	13	●	1.000	7 / 400	1	●



Material Management

AMG/Gov't Sourced Backup Stock	DLA/TACOM Supplied Material
	AMG Supplied Material

- 1,120 Parts
 - Sourced to Team Member
- Use Multiple Sources as Backup
- AM General Manages and Accounts for all Material



Performance Base

- Forecast Parts Requirements
 - Predictable & Non Predictable
- Deliver Parts Directly to Assembly Line
- No Stock Outs, 100% Stock Availability
- No “G” Coded Vehicles
- Point of Use = Point of Sale
- Cheaper Than Current Process
 - What is the Baseline?
- Small Business Goals



Outside of the Box



- Teaming With Government Agency (Collaborative Partnering)
- Alpha Negotiation
- Web Portal
 - Systems Integration
 - Asset Visibility
- Managing Commercial and Government Supply Chains
- Receive, Store, Account for Government & Commercial Owned Material Within the Same Facility
- New Billing Process – Point of Use = Point of Sale
- Deliver Parts Directly to Production Line
- Compressed Time Frame



Risk Assessment



- Management of Government Owned Material
- Cash Flow Constraints.
 - Normal sales FOB origin. Customer Pay FOB Destination.
 - Huge Additional Inventory Investment.
- AMG Does Not Increase Market Share.
- Operate Two Remote Locations. (HR, IT, Facilities, 3rd PL).
- Systems Integration
 - Web Portal
 - Complexity of Managing GFM
- New Contracting Instrument, Performance Based Logistics, PBA.
- AMG Does Not Control the Entire Supply Chain or the Assembly Line Operation.
- AMG is focal point if program fails.
 - 100% stock availability
 - Predictable & Unpredictable Parts Demands
 - Lower Costs



Executive Assessment

- AM General is Responsible for Insuring 100% Stock Availability
- Four Key Elements to a Successful Program
 - Responsiveness of DLA's Supply Chain
 - Responsiveness of TACOM's Web Portal & Supply Chain
 - Accuracy of the Depot's Schedule and Forecasting Data
 - AM General's Supply Chain Management Skills
- AM General only Control's One of These Elements



CEO's Guidance



- Build a Business Case
- Optimum Situation AMG Source All Parts
 - No Dependence on Other Sources
- AM General Does Not Take Title of TACOM and DLA Material
- Clarify the Concept for Handling Government Inventory
- Clearly Define AMG and DLA Responsibilities
- Continue Discussions to Build the Business Case



Key Negotiating Points

- Delivery & Acceptance
 - When Title Transfers to the Government
- Forecasting Responsibilities
 - Not Held Responsible for Elements Beyond Control
 - Start Up Data and Running Changes to Build Schedule
- Buyback Clause
 - Government Caused Excess Inventory, Responsibilities & Limitations
- Start Date - 15 Weeks from Date of Signing Contract
- Clearly Defined and Articulated Responsibilities
- Performance Metrics
 - Need to Develop or Qualify Baselines and Metrics.
- Incentives
 - Ensure a Minimum or Base Profit



Partnering Why It Worked



- Open Communications
 - Trust
 - DLA
 - Strategic Supplier Alliance
 - Line of Balance
 - Corporate Contract
 - TACOM
 - VIPR
 - Top 20
 - Accurate Information
 - Answering Requests in a Timely Manner
- Common Goals



Challenges



- 53 Work Days
 - Build Customer Pay Team
 - Integrate Systems TACOM, DLA, AMG
 - Find and Lease
 - Two Warehouses in two remote locations
 - Equipment
 - Develop Processes and Procedures
 - Hire and Train Workforce
 - Source, Schedule and Receive Parts
 - Deliver Parts to the Assembly Line



Implementation Phase – 53



- Build Customer Pay Team
- 3rd Party
 - Set up LOCs
 - Hire & Train Touch Labor
- Holiday Season
 - Not all external players understood the urgency of the program
 - LOC receiving parts up to 2AM on kickoff day 17 Jan 06
- Complexity of Systems Integration
 - Time did not allow for all processes to be developed, debugged and tested before implementation
 - no reject codes, could not identify why data was rejecting
- Rescheduled Launch by Two Weeks



Implementation Challenges !



- Technical Data Issues
 - 130 instances - AMG part numbers did not cross to Government required NSN's
 - 109 instances - AMG unit of issue did not match NSN's
- Parts Could Come From Any Source AMG, DLA, TACOM, Depots – “just keep the line running”
- Accuracy of Initial Forecast Data
- Early in the Program the Depots Exceeded Forecasted Production Rates
- New SAP Procedures / Three Weeks to Train AMG and Subcontractors



Mission Accomplished



- Drive Supply Chain Responsibility to Vendor
 - AM General Managing Complex Supply Chain
- DOD Pays for Materials When Delivered to the End User
 - HMMWV RECAP Program
 - » Point of Use = Point of Sale



Successes

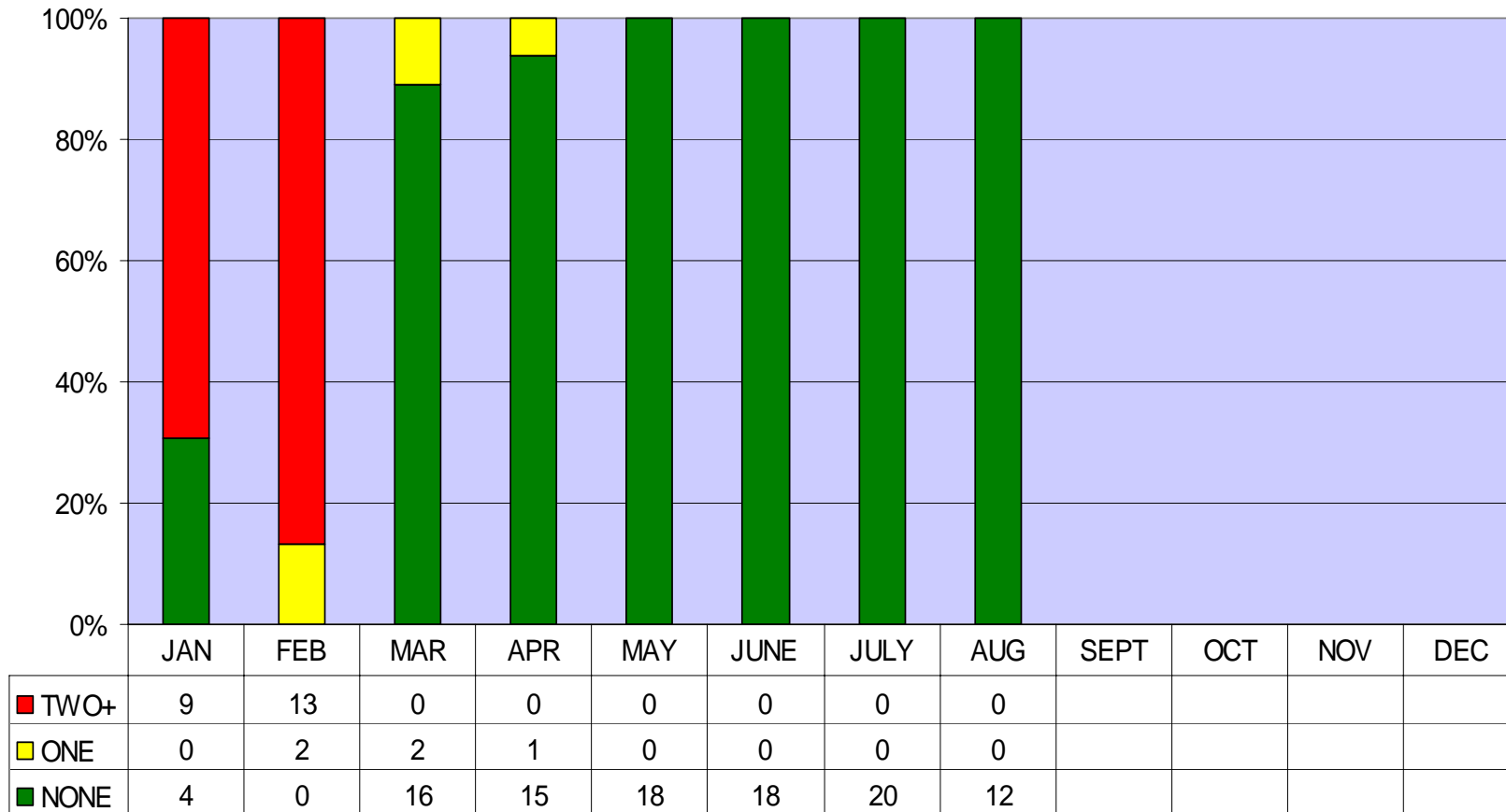
- CP Production – Feb. - July
 - RRAD 1960 Vehicles
 - LEAD 1880 Vehicles
 - MMA 75 Vehicles
- No Stock-outs
 - 111 Production Days at LEAD
 - 75 Production Days at RRAD
- Significant Inventory Reduction
- Systems Integration



75 Days No Stock Out RRAD



RRAD C/P RECAP
PART SHORT REPORT

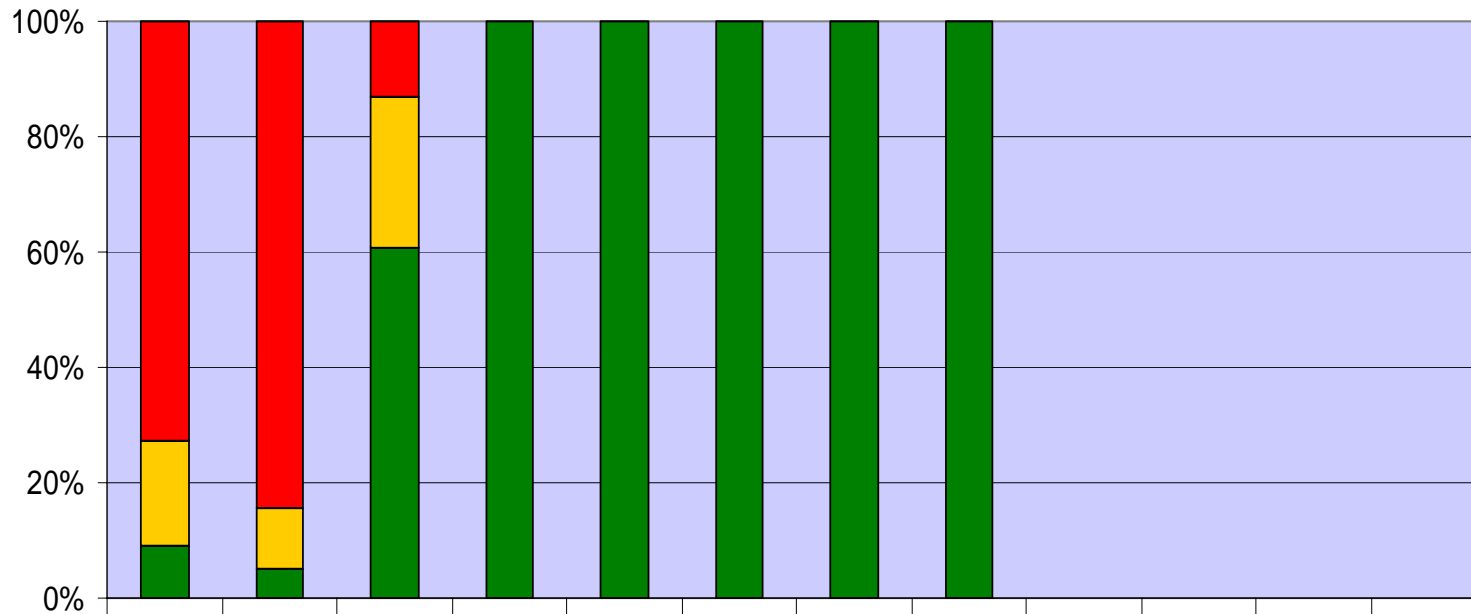




111 Days No Stock Outs - LEAD



**LEAD CP/RECAP
PART SHORTAGE REPORT**



■ TWO+	8	16	3	0	0	0	0	0				
■ ONE	2	2	6	0	0	0	0	0				
■ NONE	1	1	14	20	22	20	20	14				



Successes



- Maine Military Authority – Stock to Dock
 - 25 Truck a Month
- Just in Time Delivery
 - SAP Forecasting Data
 - Kanban type delivery
 - Continuously reducing stock levels
- 4,00,00,000 Parts Delivered



Lessons learned



- Overly Optimistic Launch Schedule
- Program Implementers Should Take Part in the Negotiations
 - Bring Ops People Together Early
 - Understand / Adapt to Changes and Fluid Production Schedules
- Don't Under Estimate Systems Integration
 - Technical Data



The Team

- TACOM
- DCSS
 - DLA Supply Depots
- Letterkenny Army Depot
- Red River Army Depot
- Maine Military Authority
- Am General
 - WW Williams



WHY

- Our truck, Our name, Our reputation.
- Customer Support
 - Our 2 Primary Customers Asked Us to Get Involved.