



Applying Innovation to Improve Logistics Performance and Reduce Costs

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The Broad U.S. National Security Challenge

- ➔ Shrinking defense budgets
- ➔ Growing and Different National Security Concerns:
 - Cybersecurity; proliferation of WMDs and their delivery means; world-wide instabilities; rising equipment and labor costs; “war among the people” (which is different than tank-on-tank); etc.
 - DoD no longer leads in many technology and process areas - - but we have laws, policies, and practices that are barriers to DoD utilizing best-in-class commercial and global (see below)
- ➔ Logistics is, by far, the largest DoD acquisition and support cost area (\$210 Billion in FY10); yet it is not world class (in terms of responsiveness, reliability, or cost)



The Key to “Doing More for Less” is Innovation

- ➔ “Innovation” is a driver of significant change, for gains in effectiveness and/or efficiency - - could be in technology, or in process, but (most important) in thinking (i.e. a “culture change”)
- ➔ For a “culture change” two things are required:
 1. Widespread recognition of the need for change
 2. Leadership - - with a vision, a strategy, and a set of actions
- ➔ For DoD logistics, the recognition of the need for change is coming from: the declining budget; the realization of the importance of logistics (in both performance and costs); and the realization that superior performance at lower cost is being demonstrated every day in the commercial world.



To “Get more with Less” requires “Innovation” in four areas

1. What we buy (for 21st Century needs)
2. How we buy (equipment and services)
3. Who does the buying, and the work
4. From whom do we buy (including commercial and global suppliers)



1) What we buy

- ➔ With limited (and declining) resources, priorities must be based on obtaining 21st century security needs affordably
 - So life-cycle-costs becomes a “military requirement” and a “design requirement” - - for goods and services
- ➔ We must learn from and emulate “best in class”; and be willing to change from our historic preference, even if its “counter-cultural” (e.g. using commercial; using “autonomous” unmanned systems; operating in a truly “Joint” and/or “multiagency” and/or “multinational,” digitally-integrated fashion [securely, of course])
- ➔ We must relate our “inputs” (people, dollars, etc.) to the needed “outputs”(results) - - so our metrics must shift from “items on the shelf” to “readiness, responsiveness, reliability, and costs”



2) How we buy

- ➔ Must recognize that over 50% of DoD acquisition dollars go to services (vs. goods) - - in FY 2010 was 57% ; yet all laws, policies, practices, education, training, etc. are based on buying goods - - and buying services is different (e.g. for an engineer vs. for a tank) and often harder.
- ➔ Quality and Prior Experience matter in selecting a supplier; yet recent trends (driven by the shrinking budget) are emphasizing “Low Price, Technically Acceptable” selections (for sophisticated services)
- ➔ Rewards (e.g. award fees, follow-ons, etc.) should be based on performance (e.g. PBL); yet recent emphasis has been based on “compliance”.



3) Who Does the Buying and the work

- ➔ Since 1990 the government contracting/ acquisition management career field has been greatly undervalued (e.g. Army went from 5 G.O.s. to 0 with contracting background; DCMA went from 4 G.O.s. to 0, and from 25,000 employees to 10,000; A.F. cut G.O.s. and S.E.S.s in half)
- ➔ Air Force (in 2011) proposed bringing maintenance work in-house to save 40%; but Congressional Budget Office did an analysis that said (for maintenance work) that contractors were 90% less expensive, better trained on the equipment, and could be hired and fired when needed.
- ➔ Of course, it is “inherently-governmental” to manage this contractor work; but “wrench turning” is not inherently-governmental.



4) From whom do we buy

- ➔ To “get more for less” it only makes sense for the DoD to buy from the best-in-class (using “best practices”) - - which, today, is often commercial, or foreign goods or services. (In fact, today, every U.S. weapon system has some foreign parts - - because they are better; not because they are cheaper). Of course, we need to be concerned about security, in all cases (U.S. or foreign).
- ➔ However, there are currently many “barriers” (and/or disincentives) to commercial or foreign goods and services (such as specialized cost accounting requirements; export and import restrictions; etc.)
 - These “barriers” must be removed if the DoD is to “get more for less” in the future



On Making Change in Government

“It Must Be Remembered That There Is Nothing More Difficult To Plan, More Doubtful Of Success, Nor More Dangerous To Manage, Than The Creation Of A New System. For The Initiator Has The Enmity Of All Who Would Profit By The Preservation Of The Old Institutions And Merely Lukewarm Defenders In Those Who Would Gain By The New Ones.”

Niccolo Machiavelli "The Prince," (1513)



Conclusion

- ➔ In his Jan. 2012 “State of the Union” address, the President stated: “Innovation is what America has always been about.”
- ➔ For the DoD to become a world-class leader in the critical military function of logistics, and to do it at significantly lower costs than today, it will require significant change.
- ➔ Part of this is leadership in the application of modern technology (e.g. secure communication and computing; “autonomous” unmanned systems; etc.); and part of it is significant changes in our process, our metrics, and our policies.
- ➔ Finally, we must clearly recognize that, in the 21st century, all operations are likely to be multiservice, multiagency, and multinational - - so we should plan accordingly.

Innovation must be the U.S. and DoD differentiator in the 21st Century.