



DEFENSE LOGISTICS AGENCY

AMERICA'S COMBAT LOGISTICS SUPPORT AGENCY



DLA Land and Maritime
2012 NDIA
Industry Conference and Exhibition

Material Cost Reduction Break-Out Session

June 11 – 13 2012



Agenda



- Introduction of Panel Members
- Austere Budget Environment
- How do we define savings?
- Strategies to Achieve Material Savings
- Initiatives
- Points of Contact
- Questions & Answers



Panel Members



- **Steve Rodocker**

- Director of the Strategic Acquisition Procurement Directorate
 - Sole Source Supplier Cost Control
 - Maximizing use of Long Term Contracts
 - Maximizing use of Quantity Price Breaks
 - Leveraging Commercial Capabilities

- **Ken Goodson**

- Competition Advocate and Acting Deputy Director of the Procurement Process Directorate
 - Maximizing use of Reverse Auctions
 - Expanding use of Automated procurements
 - Implementing Pricing Training and Workshops



Panel Members



- **Renee Magill**

- Chief of the Value Engineering Office
 - Reverse Engineering
 - Spare Parts Breakout
 - Value Engineering Change Proposals

- **Eugene Mitchell**

- Chief of the Strategic Sourcing Specialists
 - Providing Government Furnished Material
 - Conducting Industry/Commodity Market Analysis

- **Heath Berkshire**

- Program Manager for the Material Cost Reduction Campaign



Austere Budget Environment



- DLA Land & Maritime will be operating on a **smaller budget** for the foreseeable future.
- With a smaller budget, DLA Land and Maritime must **reduce material costs** in order to **provide sustained superior support** to the Warfighter.
- **Engagement with industry partners** is essential to developing innovative and strategic relationships to drive down acquisition costs.



How do we define savings?



- Savings are calculated as follows:

Savings = Historical Price Paid – Current Price Paid



Strategies to Achieve Material Savings



Leverage Commercial Capabilities

- ★ Use Commercial Price Lists
- ★ Customer Direct LTCs for Commercial-Off-The Shelf (COTS) items
- ★ Cost effective methodology of supporting Non-NSN items

Leverage Economies of Scale

- ★ Long Term Contracting (LTC)
- ★ Quantity Price Breaks

Sole Source Supplier Cost Control

- ★ Strategic Supplier relationships
- ★ Overhead Cost Analysis
- ★ Forward Price Rate Agreements/Recommendations

Enhance Competition

- ★ Reverse Auctions
- ★ Reverse Engineering
- ★ Source Approval Request (SAR) processing
- ★ Automation



Enhancing Competition



Lever

- **Reverse Engineering (RE)**
- Sustaining Engineering (SE)
- Sole Source Break Out Project (BO)
- Other **Value Management Techniques** - VECP* (FAR 52.248-1), RPPOB* (DoDI 4140.57)
- Source Approval Request (SAR)

Current Status

- RE - 9 projects w/\$882K savings expected FY13
- Military Service partnerships – Future RE/SE Projects being identified to support expected growth.
- BO – Partner w/ESAs to quickly identify Sole Source NIINs w/technical data.

Strategy / Future Actions

- **Grow RE (25%) and SE (20%)**
- **BO – Review 2800 NIINs/year**
- **Expand RE capability**

Expected Outcome

- Increase Competition
- Reduce material costs
- Increase SAR acceptance rate

Acronyms:

*VECP – Value Engineering Change Proposals

*RPPOB – Repairs Parts Purchase Or Borrow



Conducting Industry/Commodity Market Analysis



Lever

- Develop Sourcing and Acquisition Strategies
- Use of current manufacturing techniques and technologies
- **Creation of viable /attractive solicitations with industry input**

Current Status

- Select an FSC to be used as a Pilot Project
- Create a Pilot Project Working Group (DLA Land/Maritime and R&D)
- Develop Statement of Work (SOW) and Charter
- **Meet with Industry Associations to receive input on solicitation creation**

Strategy / Future Actions

- Achieve buy-in from Industry and management
- Develop expertise in market analysis and research

Expected Outcome

- **Increased market intelligence and reliability**
- Increased success in LTC solicitation grouping process



Maximizing use of Long Term Contracts



Lever

- Long Term Contracting

Current Status

- 13 Commodity Group Projects awarded or have projected award dates in FY 13
- Ongoing process improvement efforts to **enhance the utilization of awarded LTCs**
- 8 major MRAP projects with projected award dates in FY 13

Strategy / Future Actions

- Increased utilization of LTCs
 - Commodity Group Projects (CGP)
 - MRAP Support Contracts
 - Other LTCs

Expected Outcome

- **Reduction of PRs on the floor**
- **Inventory reduction**
- **Significant reductions in ALT and targeted 10% reduction in PLTs**
- **Material costs savings**
- **Cost avoidance through improved processes**



Sole Source Supplier Cost Control



Lever

- Sole Source Supplier Cost Control

Current Status

- **For Period Oct 2011– Apr 2012 OEM Savings at 3% (\$4.32 Mil) based on \$137.4 Spend**
- Developed Material Cost Reduction Plan with Strategic Supplier Alliances

Strategy / Future Actions

- Loss of business for end items creating challenges for OEM's to hold overhead costs
- **Prices trending up for most of the OEMs**

Expected Outcome

- Improved OEM processes for obtaining better prices from their subs
- **Ensure OEMs are taking appropriate measures to control overheads**
- **Continue LTC support**



Leveraging Commercial Capabilities



Lever

- Leveraging Commercial Capabilities
 - **Maximizing Contract Coverage on Commercial Price Listed LTCs**
- Developing other Customer Direct LTCs for Commercial-Off-The-Shelf items (COTS)
- Executing a more cost effective methodology for support of Non-NSN

Current Status

- Reviewed COTS Coding for all NINs
- Categorized Groupings for Market Research
- Identified Contractors for Market Research (25)
- Conducting Market Research and Synthesize Information – 3rd Quarter FY12
- **Build LTC Packages – 1st Quarter FY13**

Strategy / Future Actions

- Where it makes business sense, establish Customer Direct LTCs for Commercial Catalogs.

Expected Outcome

- **Eliminate duplication in the Supply Chains**
- Improve support for Non-NSNs

CHALLENGE

- Capturing Demands



Expanding Use of Automated Procurements



Lever

- Auto-buy Expansion: Auto-solicitation and Auto-award

Current Status

- **85% of small purchases are auto-solicited**
- Changes to levers implemented under operation full press in April 2012 – benefit realized over future years
- **Auto awards trend at approx. 3% lower material cost than manual awards**

Strategy / Future Actions

- **Minimize NSN Exclusions**
 - Populate required T/Q Data
 - Increase of Simplified Acquisition Threshold
 - **Variable Pricing Factors** by dollar value ranges

Expected Outcome

- Enhance competition by fully leveraging automated capabilities



Other Initiatives



- Maximizing use of Reverse Auctions

- Providing Government Furnished Material
 - Raw Materials
 - Casting and Forgings

- Implementing Pricing Training and Workshops

- Maximizing use of Quantity Price Breaks



Points of Contact



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Questions & Answers

