“Need To Be Faster, More Agile, Less Bureaucratic - Need To Fight This Everyday”

Implementing Purchasing & Supply Management

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Contracting Policy Division
Agenda

• What is PSM and Why Change?
• What are AMC Goals for PSM?
• How will AMC Implement PSM?
• How does PSM integrate with other AMC initiatives?
• How does BRAC impact PSM pilot?
• Backup Data - Charts
What is PSM?

• Strategic, enterprise wide multi-functional approach to managing supply chain
• Reduces total ownerships costs, improves quality and performance
• Manages Risk and improves reliability

Why Change?

ACM COMMANDING GENERAL DIRECTIVE

Need to be faster, more agile, less bureaucratic.
Need to fight this everyday.

OMB Directive – 20 May 2005

Federal Agencies need to leverage spending to the Maximum extend possible through strategic sourcing.

RAND Federally Funded Research & Development Center

Through PSM practices, enterprises report that they have improved performance, reduced total costs and limited their risks.
Why Change?

How PSM Impacts AMC

AMC spend is 50% of total Army - PSM - strategic enterprise wide approach that manages entire supply chain

Purchased Goods and Services Represent a Significant Portion of the Army’s Budget

The Paradigm Shifts from Managing Items and Contracts to Managing Suppliers and Capacity

Cost

Wait time

inefficiency

Decrease

Readiness

Supplier capacity

Buying power

Increase

Activities

- Market knowledge
- Supply base management
- Supply chain management
- Commodity strategy
- Risk management
- Sourcing strategy
- Supplier development
- Supplier capability assessment
- Strategic negotiation
- Supplier performance evaluation/reporting
- Establish performance metrics
- Commercial (tactical) negotiation
- Supplier selection
- Order processing


[Graphs and charts showing cost, wait time, and inefficiency decreases and readiness, supplier capacity, and buying power increases due to PSM.]

AMC Vision/Strategy for PSM

VISION:
Be the sustainment supplier of choice for worldwide weapons systems parts and equipment support

MISSION:
Improve readiness through PSM transformation

PSM Strategy:
Build long-term collaborative relationships with suppliers
• AMCOM pilot - AWCF secondary items
Integrate purchasing and supply functions across the enterprise
Develop strategic focus to supply chain management
Develop PSM as a core competency across AMC
Increase quality and performance
Decrease delivery time, ALT and total costs
Expand PSM best practices across AMC
What are AMC’s Goals for PSM?

Quantifiable goals to guide the PSM process design

**CUSTOMER**
- Increase weapon systems availability
- Attain improved order fulfillment

**FINANCIAL**
- Reduce total supply chain cost

**PROCESS**
- Reduce end-to-end cycle time
- Simplify Business Processes
- Achieve end-to-end visibility

**LEARNING/GROWTH**
- Build a flexible and empowered workforce
- Develop strategically-focused knowledge workers
How will AMC Implement PSM?

ESTABLISH A PILOT PROGRAM AT AMCOM
Rotor Blades and drive train mechanisms

• Establish a Purchasing and Supply Management Cell at HQ’s
  • Oversee PSM pilots
  • Develop / provide PSM training and information
  • Develop AMC wide implementation plan

• Launch Pilot at AMCOM
  • Cross functional teams will test 3 echelons of PSM
    • Supply management
    • Commodity teams
    • Joint Logistics support

• Proliferate PSM across AMC upon success of pilot

• Consider BRAC impacts throughout pilot implementation
Phased and Iterative PSM Implementation

1QFY06

1. Implementation Plan Developed and Approved
2. Formed HQ IPT and PSM Cell
3. Form Pilot Program IPT at AMCOM
4. Review “As-Is” Baseline. Determine “To-Be” Processes
5. Document Business Rules & Instructions
6. Document Objectives, Metrics and Baselines

1QFY07

7. Collaborative IT Design and Deployment
8. Daily Use of “To-Be” Processes
9. Business Rules Adjustments As-Required
10. Metrics Monitoring and Reporting
11. Evaluation of Pilot Program
12. Formation of AMC-wide Commodity Councils
14. Perform Market and Spend Analysis
15. Select Commodity, Supplier and Joint PSM Pilot Candidate Items
16. Business Case Development & Management Reviews
17. Workforce Training, Organizational and Job Role Adjustments
18. Negotiate Flexible Long-Term PSM Contracts
19. Iterative Methodology
What Processes will the PSM Pilot use?

8 step process

1. PSM PLAN
2. IPT & AS-IS
3. TO-BE RULES & METRICS
4. EVAL & ASSESS MARKET
5. STRATEGY APPROVAL
6. CONDUCT PSM PILOT
7. MONITOR AND IMPROVE
8. PSM ROLL OUT

Follows a proven and reliable process
USAF and industry approach
How does PSM integrate with Ongoing AMC Initiatives?

- **AMC**
- **Collaboration**
- **Commodity Councils**
- **Strategic Sourcing**
- **PSM**
- **Performance Based Logistics**
- **LEAN /6 Sigma**
- **Contractor Logistics Support**
- **Long term Contracts**
- **Logistics Modernization Program (LMP)**
How will BRAC impact AMC PSM Pilot? Mitigates Readiness Risk Consolidates DLR Buying Function

SERVICES RETAIN

Logistics Support Processes
Service Logistics Systems
**DLR Requirements Determination**
Item mgmt responsibility
**DLR Repair Management**
**Title 10 Responsibilities**
-- Achieving readiness levels
-- 50/50 compliance
**DLR Technical Support**
**DLR Reliability Engineering**
**DLR Deficiency Resolution**
**Engineering Release Authority**
Service Stockage Policy

-- Achieving readiness levels
-- 50/50 compliance

**Transfer to DLA**

DLR Purchasing Responsibility
Service DLR “Buy” Cost Authority
Contract Development Responsibility
Service DLR Buy Support Personnel
Remaining consumable items

Pilot Focus on AWCF DLRs
Questions
BACKUP CHARTS
Summary of FY04 DD350 Transactions Reveals Complexity of Army Materiel Command Purchases

• Prospective target areas
  - $42 B in purchases
  - 32 different purchase office codes
  - 26,092 different contracts
  - 10,229 different contractor I.D. codes
  - 9,022 different parent company I.D. codes
  - 1,184 different Federal Supply Class (FSC) codes

• Prospective challenges

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<th>contracts</th>
<th>% of</th>
<th>% of $s</th>
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<td>Sole source contracts</td>
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<td>36</td>
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<td>Three or more bids</td>
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SOURCE: FY04 DoD-wide DD350 data; Army Materiel Command.
What an Analysis Reveals

**Having Many Contracts in the Same FSC May Indicate Prospective Targets for Reducing Transaction Costs**

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<tr>
<th>Federal Supply Class</th>
<th># Ctrx</th>
<th># Ctr ID codes</th>
<th>% Ctrx sole srce</th>
<th>$s M</th>
<th>% Ctrx small biz</th>
<th># PO cds</th>
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<td>$944</td>
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**Having Many Dollars in the Same Federal Supply Class May Indicate Prospective Targets for Leveraging Spend**

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<th># Ctr ID codes</th>
<th>% $s sole srce</th>
<th># Ctrx</th>
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**Having the Same Supplier* with Multiple Contracts May Indicate Prospective Leverage Opportunities**

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<th>$s M</th>
<th>% $ sole source</th>
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