



## A Conversation with Vice Admiral Mark Harnitchek Director, Defense Logistics Agency

*The Defense Logistics Agency (DLA) provides full-spectrum logistical support to soldiers, sailors, airmen, Marines, and civilians around the world every day and for every major conflict over the past five decades. Logistics is a cost driver that must be managed with deliberate precision. DLA's readiness to respond to warfighter needs is built on an integrated supply chain that must be efficient and effective. As stewards of the Department of Defense's resources, the agency must go beyond simply responding to demands to more effectively anticipating them.*

*Over the next decade, DLA will find its comprehensive logistics services needed more than ever in new and challenging ways. The very nature of envisioned threats and conflicts, combined with increased fiscal challenges, demands an agile, joint logistics response marked by innovation and best practices. What are DLA's strategic priorities? How is DLA working to reduce cost while improving support of the warfighter? What about DLA's role in providing humanitarian assistance and disaster relief support? Vice Admiral Mark Harnitchek, Director of the Defense Logistics Agency, joined me on The Business of Government Hour to explore these questions and more. The following provides an edited excerpt from our interview. — Michael J. Keegan*

### **On the Mission and Operations of the Defense Logistics Agency**

DLA was established on October 1, 1961, and was known as the Defense Supply Agency before officially changing to its present name in 1977. It was conceived in the 1960s as a more efficient way to provide armed services with supplies. The agency has evolved over time to provide a full spectrum of logistics, acquisition and technical services ... sourcing and providing almost every consumable item used by our military forces worldwide—food, medicines, medical surgical equipment, fuel, construction equipment, construction supplies, uniforms, and all the things used in the field. DLA also supplies more than 84 percent of the military's spare parts. In addition, we manage reutilization of military



equipment, provide catalogs and other logistics information products, and offer document automation and production.

DLA has 27,000 people working across 30 countries and 48 states to meet its mission. We are indeed a global organization. The primary source of financing is our revolving fund, the Defense Working Capital Fund. We sell to our service customers the products and services they need. They reimburse us and those funds go into our working capital fund—basically, our activity is financed with the funded orders placed by our customers.

We are required to keep a certain amount of cash on hand to pay our bills. We are right around \$40 billion in sales and about \$5 billion to \$6 billion in cost of operations. Our two biggest financial lines of operation are the things that we buy and the cost of our operations, which includes staff, infrastructure, and transportation.

Fuel is our largest commodity purchase, equaling about half of that \$40 billion. We're in the same league as Delta and Northwest in the amount of fuel we buy. It's about 130 million barrels a year. Food is another big ticket item, at around \$4 billion to \$5 billion. Pharmaceuticals are in the \$4 billion to \$5 billion range as well, with uniforms, repair parts, construction equipment, etc., rounding out the last \$10 billion of our purchases.

**On the Importance of Understanding our Customers**

I am very focused on understanding my customers' needs, requirements, and operational outcomes. We take that as understanding the array of required products and services while responding to the needs of our customers and assisting them to achieve mission outcomes. For example, our support in Afghanistan is to have the requisite amount of food and fuel on hand to meet the operational commanders' needs, whatever those are, and then have all those other supply chains positioned to do that.

From a 50,000-foot perspective, it's not all that difficult. It's understanding what it is your customers want, the outcome you're trying to achieve, and then figuring out on the back end how to achieve it in the most efficient and cost-effective manner. Given our service customers pay us for these goods



U.S. Navy photo by Mass Communication Specialist 3rd Class Lacordrick Wilson

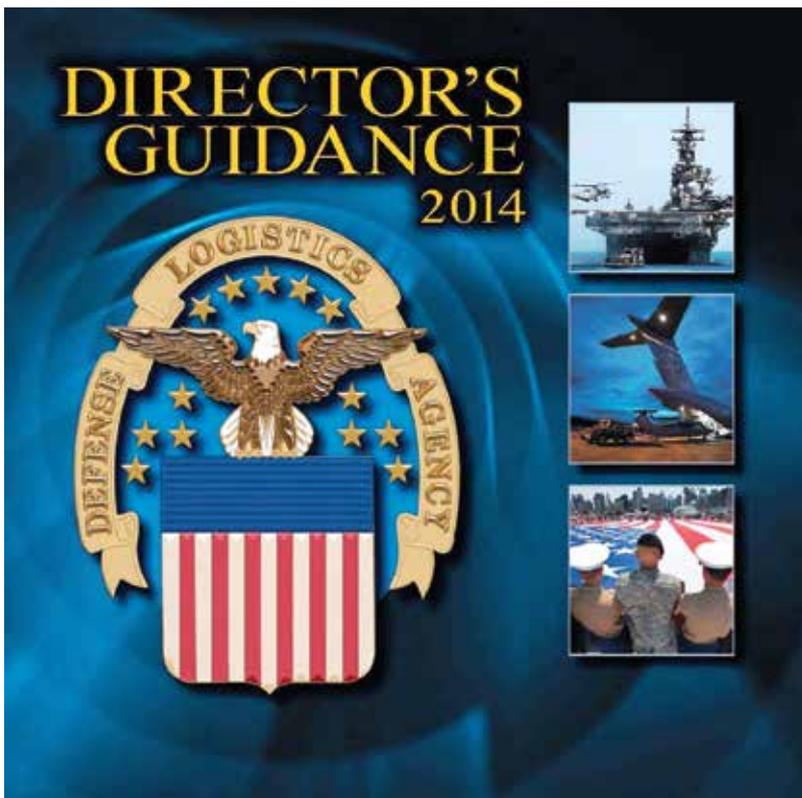
and services, we're very focused on getting the best value for our money and passing that on to our customers. So if I can sell something for 10 percent less this year than I did the year before while getting the same operational outcome, then that's exactly what we want to do. This is, in a nutshell, my responsibility and that of the 27,000 military and civilian folks who work for DLA.

**On DLA's Strategic Vision: "13 in 6"**

Since I arrived at DLA, [I have] focused on significantly improving our performance while dramatically reducing cost. It is all about putting our customers first, and being a warfighter-focused, globally responsive, fiscally responsible supply chain leader.

To make this strategic vision a reality, I introduced my 10-in-5 strategy, which means saving \$10 billion over the next five years by focusing on five core priorities: decrease direct material costs, decrease operating costs, right-size inventory, improve customer service, and achieve audit readiness. But the targets get more aggressive as we go forward. We've upped 10-in-5 to create even more savings; our new goal [is to] slash \$13 billion in operating and material costs over the next six years. DLA will deliver improved performance for \$13 billion less.

On decreasing direct material costs, we are to be smart buyers of the right stuff through a combination of reverse auctions, commercial-type contract terms, substantial industry partnerships, performance-based logistics and prime



vendor contracts, and significantly reduced lead times. We are reducing operating costs through a combination of eliminating, consolidating, and co-locating infrastructure, optimizing the global distribution network, enhancing retail industrial support, incorporating process improvements, and going green at DLA operating locations.

An integral aspect of achieving the 13-in-6 strategy centers on cleaning out the attic. This involves right-sizing both war reserves and operational inventory by reviewing and adjusting strategic requirements, leveraging commercial supply chains without redundancy, and improving planning and forecasting accuracy. Our short-term goal is to reduce excess inventory by \$6 billion by the end of 2014 without sacrificing military readiness.

In the end, our customers must be front and center, so improving customer service is a key strategic objective. As with all DoD components, we need to make sure our organization achieves audit readiness, demonstrating our commitment to transparency and accountability through our culture of judiciousness.

On improving performance, you have to give everybody a target and then you have to fully empower them to start improving performance and dramatically reducing cost. This is not something we define; it's something our service customers define. Improving performance is not all that difficult if you stick to the basics. We are an acquisition machine. You have to buy enough. You have to buy it on time, and then you have to make sure it gets where it needs to go.

### On Reducing Costs Using Reverse Auctions

DLA has substantially increased its reverse auction opportunities, which has led to savings of more than \$1.6 billion. To put a fine point on it, our energy area achieved \$400 million in savings in fiscal year 2013 by using reverse auctions to get better prices and increase competition in awarding fuel contracts. We had another contract that we ran as an auction for a medical prime vendor for medical supplies. It's a 10-year contract worth about \$10 billion. We saved five percent. Five percent of \$10 billion is a big number leading to significant savings. So how do they work?

Instead of a sealed bid or a best and final that we negotiate with each of the suppliers, reverse auctions run online and the reverse auction pricing tool should be used for all competitive purchases over \$150,000. Reverse auctions involve contractors placing a bid lower than an earlier bid, which fosters intense competition and drives down prices.



Typically, the bidding process lasts about an hour and auctions are held almost daily by DLA units.

### On Right-Sizing Infrastructure and Achieving Optimization

We manage 26 distribution centers worldwide. To achieve our 13-in-6 vision, it is important to optimize warehouse operations and reduce distribution infrastructure. Since we need to decrease operating costs, we're going to keep the inventory we need and store it in our most cost-effective, advantageously located distribution centers.

Last year, 40 percent of DLA's inventory was in more than one place. If you talk to FedEx, they'll tell you they can have anything, big or small, moved anywhere in the United States in five days. How can we employ the same principle? It involves minimizing inventory and really leveraging our fabulous distribution and transportation system. We're going to put most of our wholesale inventory at one of four places: Susquehanna, San Joaquin, Warner Robins, and to a lesser extent Red River.

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When we eliminate a facility, we reduce operating costs. Reducing operating costs also reduces the rates charged to customers and ultimately [the price they will] pay for material storage. In FY12, by vacating 34 buildings, one partial facility, and four temporary structures, we reduced infrastructure by 2.6 million gross square feet. An even larger reduction was achieved in FY13 when 4.1 million gross square feet were vacated. The plan is constantly modified to account for changes in mission, workload, material in storage and DOD and DLA initiative.

### **On Reducing Fuel Cost While Improving Distribution**

Fuel procurement, primarily jet fuel which accounts for approximately 75 to 80 percent of DLA Energy’s fuel purchases, represents the largest portion of expenditures. The U.S. Air Force is our biggest fuel customer, then the Navy, and then the Army. We sell largely JP8 fuel to them. JP8 is commercial jet fuel with a different flash point and a different freeze point. We have to store it separately from other types of fuel, resulting in about 600 sites where we store military-specification fuel.

The Air Force has decided to [switch] from JP8 fuel to standard commercial jet fuel. This makes you more ready because that fuel is available all over the world. Everybody doesn’t use military jet fuel. A second thing is if you don’t have this unique requirement for military-specification fuel, you can rely on commercial industry to store it for you, so we can rid ourselves of legacy World War II vintage, below-ground storage tanks that, frankly, are an environmental accident waiting to happen. This effort by the Air Force will save hundreds of millions of dollars in infrastructure cost over 20 years. Plus, standard jet fuel costs a little less.

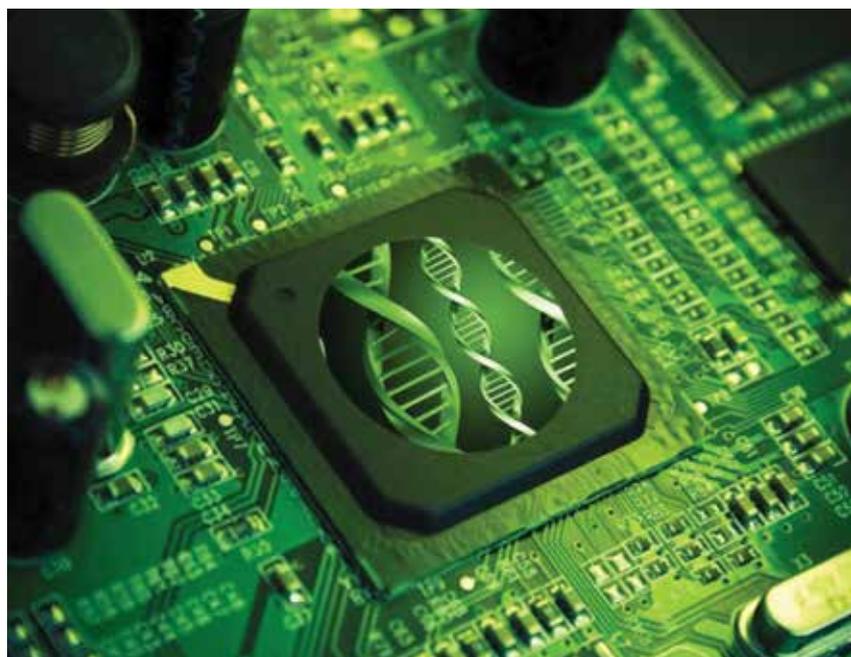
### **On Combating Counterfeit Parts**

We are working to aggressively keep counterfeit parts out of the military supply system, and we’re doing this by working closely with manufacturers to find innovative ways of proving product authenticity. A commodity most at risk or

most susceptible to counterfeiting is microcircuits. We are attacking this situation on multiple fronts.

We are only buying from certified suppliers. We’re instituting software that can identify anomalies in vendor addresses and buying patterns. If we have a supplier who only has a post office box or is fairly new to the system, then a flag should be raised, much like a credit card vendor recognizes anomalous buying patterns and warns the buyer.

We also made it a requirement that all electronic microcircuits we buy must be marked with botanical DNA. This means that manufacturers and distributors that want to sell microcircuits to DLA have to mark those items with SigNature DNA, a product invented by the civilian high-technology firm for forensic authentication and counterfeit prevention. We spent some 18 months working to come up with this functionality and proving that these products could



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be marked with botanical DNA during production and that those marks could later be read.

We buy about 80,000 different types of microcircuits, used in everything from aircraft and ships to medical equipment. Microcircuits are the first commodity DLA is targeting because they have a high risk of being counterfeited. As the guy that's responsible for good components in the supply chain, this is not a fail-safe method. It's been very successful and we plan to expand that to other commodities as well.

### On Leadership

I have been very fortunate and blessed to work [with] excellent leaders. I recall fondly what I have learned from mentors such as General Duncan McNabb, General Norton

Schwartz, Admiral Mike Mullen, and General Whitcomb. I probably have learned the most in the past 10 years given the pressures faced while the country's been at war. My last boss before arriving at DLA, General Duncan McNabb, has shaped my "Guiding Principles" in my Directors Guidance, which in turn has shaped my leadership approach. "We are living in historic times doing things we've never done before. Make some history yourself. Push for smart things to do ... don't wait for the requirement or for folks to ask. No one knows this stuff better than us—act like it. I trust you; prioritize, do it your own way, but get it done or ensure it gets done. This is your time; do big things and make it better. If not you, who? If not now, when? Relationships are key; build them and use them. Take care of one another. Keep promises." ■

#### DIRECTOR'S 2014 PRINCIPLES

We are living in historic times ... doing things we've never done before ... make some history yourself.

Push for smart things to do ... don't wait for the requirement ... or for folks to ask.

No one knows this stuff better than us ... act like it.

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This is your time ... do big things and make it better. If not you, who? If not now, when?

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Keep promises.

To learn more about the Defense Logistics Agency, go to [www.dla.mil](http://www.dla.mil).



To hear *The Business of Government Hour's* interview with Vice Admiral Mark Harnitchek, go to the Center's website at [www.businessofgovernment.org](http://www.businessofgovernment.org).



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