

Top 10 "Best in Class" Logistics Organisation Practices Achieve Supplier Contribution to High Readiness Rates

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Readiness is the state of preparedness of forces or weapon system or systems to meet a mission, based on adequate and trained personnel, materiel condition, supplies/reserves of support system and ammunition, numbers of units available, etc.

Deficits in Reliability, Availability, and Maintainability [RAM] will cause readiness to fall below needed levels or increase the cost of achieving them. Effective diagnostics helps assure both system/mission readiness and efficient repair/return to ready status.

The primary objective of Department of Defense acquisition is to acquire quality products/systems that satisfy user needs with measurable improvements to mission capability and operational support in a timely manner.

This guide supports that objective. It addresses RAM as essential elements of mission capability. It focuses on what can be done to achieve satisfactory levels of RAM and how to assess RAM. This Background Brief introduced RAM, what it is, why it is important, current RAM problems in the DoD, and activities appropriate to achieving satisfactory levels.

RAM refers to three related characteristics of a system and its operational support: reliability, availability, and maintainability.

Reliability is the probability of an item to perform a required function under stated conditions for a specified period of time. Reliability is further divided into mission reliability and logistics reliability.

Availability is a measure of the degree to which an item is in an operable state and can be committed at the start of a mission when the mission is called for at an unknown/random point in time. Availability as measured by the user is a function of how often failures occur and corrective maintenance is required, how often preventative maintenance is performed, how quickly indicated failures can be isolated and repaired, how quickly preventive maintenance tasks can be performed, and how long logistics supply line support delays contribute to down time.

Maintainability is the ability of an item to be retained in, or restored to, a specified condition when maintenance is performed by troops having specified skill levels, using prescribed procedures and resources, at each prescribed level of maintenance and repair.

Many factors are important to RAM: system design; manufacturing quality; the supply line characteristics of system is transport, handled, stored, and operated; the design and

development of the support system; the level of training and skills of troops operating and maintaining the system; the availability of materiel supply required to repair the system; and diagnosis tools. available .

All these factors must be understood to achieve a system with a desired level of RAM. During pre-systems acquisition, the most important activity is to understand the users' needs and constraints.

During system development, the most important RAM activity is to identify potential failure mechanisms and to make design changes to remove them. During production, the most important RAM activity is to ensure quality in manufacturing so that the inherent RAM qualities of the design are not degraded.

In Operations/support phase, the most important RAM activity is to monitor performance in order to facilitate retention of RAM capability, to enable improvements in design iff there is to be a new design increment, or of the support system to included support concept, spare parts supply, etc.

Although significant improvements have been made in increasing the reliability of basic components, these have not always been accompanied by corresponding gains in the reliability of equipment or systems. In some cases, equipment and system complexity and functionality have progressed so rapidly that they negate, in part, the increased reliability expected from use of the higher reliability basic component.

In other cases, the basic components have been misapplied or overstressed so that their potentially high reliability is not realised. In still other cases, past Site Visit Executives have been reluctant or unable, due to programme budget shortfalls or highly aggressive schedules, to devote the time and attention necessary to ensure that the potentially high reliability is achieved.

However, in many areas of the commercial sector, increased system complexity has not negated system reliability. In fact, often products with increased system complexity are provided with increased system reliability. This is an area the defense sector must also strive to improve.

Achieving specified levels of RAM for a system is important for many reasons, specifically the affect RAM has on readiness, mission success, and logistics footprint.

Top achieve top readiness for the fleet DoD must realise doing what you've always done—even if you think you do it very well—is no longer acceptable. Under pressure to contain costs and produce results despite challenging circumstances, your equipment supply line administration must achieve transformation, not simply improving your operation. That means adopting structured processes to make your organisation "best in class."

What makes a supply line organisation best in class? The answer will vary for each DoD component, but there are some practices that many leading organisations are adopting

now. Here we outline key practices to function across functional locations.

There are not precise roadmaps for achieving the desired level of supply line readiness for your organisation. The sequence of practices does not indicate priority or suggest a higher or lower importance ranking. It does, however, offer a systematic approach for measuring your effectiveness in building a best-in-class supply line organisation.

Some of these practices are simple, straightforward, and familiar. Others may be new to your Service Division so you must work toward implementation to build strong foundation for excellence in executing supply line practices to achieve high levels of readiness.

1. Establish Administrative Supply Line Teams to Achieve Readiness

Purpose of building Readiness Teams is to give direction and help align supply line strategy direction with yours overall strategy to include regularly scheduled meetings. But even if it doesn't, it will serve to indicate endorsement and commitment of senior leadership.

We often see supply line organisations struggle in establishing recognition of Readiness objectives and strategies differ from their companies' stated objectives and strategies by providing constant, consistent validation that the supply line strategy directly correlates with DoD strategy.

Readiness team must serve to remove existing barriers to success like individuals or organisations that don't see or accept the value that well-built supply line structure provides. By addressing these barriers, you can ensure supply line team is given the opportunity to perform up to its potential. When it is clear that the executive leadership is fully embracing the supply chain organisation, it is likely that key business-unit stakeholders will be more willing to work with and support supply line efforts and initiatives and provide effective forum for cross-functional communication.

2. Properly Align Supply Line Organisation with Readiness Objectives

It can be difficult to organise the supply line function in so effective readiness levels are maximised and bring commensurate benefits to DoD. Some Service components will be best served by embedding proficient supply lines teams within business units. For others, a more centralised operation is most effective. Many readiness teams we have worked with, however, have adopted a hybrid approach that combines a centralised strategy to gain consensus with decentralised execution to improve service.

Another emerging trend we have seen involves placing procurement, logistics, contract management, and forecasting/demand planning and similar functions under direction of Site Visit Executive This approach is not always appropriate for all DoD divisions but it does give us an idea of current about supply line reporting structure.

Whatever structure you adopt, building effective readiness teams is vital to success. Elevating individual skills sets for team members is always a priority, of course. But sometimes top leadership focuses more on strategy and is less concerned about transactional ability and teams must be built with ability to think strategically, and a focus on value creation.

3. Make Technology Work to Improve Readiness.

Too many DoD leaders hope new technology will make them more efficient, and they structure their workflows and processes around that chosen technology. Instead, DoD must first review the processes that need improvement, and only then select the technology that best satisfies those process needs. This may seem self-evident, sometimes DoD buys first and figures things out later.

Perhaps that is why many supply line teams seem to be "feeding the system" such as an enterprise resource planning system with information, and they have difficulty retrieving the type of readiness info they need for making sound strategy and business decisions.

To become best-in-class organisation, DoD must understand that "the system" should help them better manage their supply lines. They find a way to use technology to produce beneficial information without having to perform various "work-arounds" to extract and view Readiness indications. They recognise the importance of an efficient purchase-to-pay process and have adopted strategies and mechanisms to get the greatest benefits from technology.

4. Establish Contacts with Suppliers Critical to System Readiness

Must work closely with suppliers long after a deal has been established, and not just with one-way communication telling the supplier how to do it. Two-way communication, which requires both buyer and seller to jointly build the relationship, is more effective. Contacts with representatives from both parties working together to enhance the buyer/supplier relationship is key to establishing high Readiness levels.

Primary objectives of an effective contact programme with key suppliers include providing mechanism to ensure that the relationship stays current and vibrant and create platform for problem resolution. Continuous improvement goals with the objective of achieving value for both parties must be established to ensure performance measurement objectives are achieved

With a sound supplier contracts programme in place, you will be equipped to use the talents of your supply base to create sustained value while constantly seeking improvement. Smart implementation of these recommendations will provide you with strong foundation for supply line excellence.

5. Readiness Teams must Engage in Collaborative Strategic Sourcing.

Strategic sourcing is a cornerstone of successful supply line operations. But a collaborative strategic sourcing initiative produces even better results. DoD must not consider strategic sourcing as just a matter for the purchasing teams, best-in-class organisations get internal "customers" actively involved in the decision-making process.

More importantly, they solicit feedback and information regarding their objectives and strategies from those customers, which may include functional areas such as cost tracking engineering, operations, maintenance and quality assurance—any internal business unit or function that will contribute to success of Readiness initiatives. This approach not only ensures availability of supplies but also results in lower total cost, streamlined processes, and increased responsiveness to changing needs of customers.

6. Focus on Total Cost of Ownership to Maintaining Readiness

One benefit of strategic sourcing is shifting the focus from looking only at the purchase price to understanding the total cost of owning or consuming a product or service. For significant spend areas, new procurement teams must abandon outmoded practice of receiving multiple bids and selecting a supplier simply on price.

Instead, they consider many other factors that affect the total cost of ownership since acquisition costs do not even account for at third of the total cost for most products and services. The balance of the total comprises operating, training, maintenance, quality, and transportation costs as well as the cost to salvage product value later on.

Identifying the total cost of ownership requires looking at the entire process of procuring and consuming the product or service, something that can only happen with cooperation and input from both the buyer and the seller. DoD must not stop there, must also ask suppliers and internal stakeholders the following important question: "How can we work together to reduce the total cost of ownership?"

Establishing a "total cost of ownership" mindset is a goal that DoD supply line teams must embrace and perpetuate throughout the entire enterprise. But it is not always easy to convince leadership to truly prioritise value over price.

7. Put Readiness Contracts Under Supply Line Function

Purchasing and procurement teams often negotiate significant potential savings during the sourcing process but never fully realise those savings. The reasons for this vary, but they often include a failure to communicate contract terms to the affected organisations and a failure to monitor contract compliance.

All too often, in fact, the executed contract is filed away in some drawer and forgotten. This is no exaggeration; when we asked DoD supply line teams "How do you build Readiness contracts?" their answers were startling. Most stated, "We can't even find the contracts, much less shape them."

DoD must move responsibility for contract management to the supply line organisation, not leave it in purchasing or operations. One benefit of this shift is that it ensures the contracts are collected and maintained in a central repository, to effectively leverage DoD spend, particularly in the area of services, where there is a great opportunity for cost reduction and risk mitigation.

8. Optimise DoD-owned Readiness Inventory

The negative effects of bad practices for fiscal teams must be constantly looking for new ways to improve the bottom line and reduce working capital. Supply line organisations must therefore constantly review their inventory quantities and strive to keep them at optimal levels.

It's no surprise that best-in-class organisations are paying attention to inventory at the highest levels. The "real" cost of holding inventory often is higher than generally assumed. In fact, we have found inventory holding costs could represent a majority of item cost.

Poor planning and forecasting are direct causes of inventories that are out of balance with DoD Requirements. Accordingly, DoD must also placing more emphasis on demand planning and forecasting as an additional means of ensuring optimal inventory levels.

9. Establish Control Levels to Minimise Risks to Readiness

Supply Line policies and procedures must follow an appropriate sequence and structure, and it is important to review them constantly so they are always up to date.. Keeping Readiness goals realistic and easy to understand and follow will help to ensure compliance.

It is certainly possible to go too far in establishing policies and procedures, however. That is why you must periodically review policies and controls to ensure that they are not creating bottlenecks. Their objective is to streamline them without sacrificing the ability of those controls to deter risks to Readiness.

Risk mitigation goes hand-in-hand with policies and controls, and DoD must integrate risk-mitigation focus into sourcing decision process. This is a complicated subject, but in short, best in class organisations are adopting sound processes to identifying all risk elements, determine probability of the risk event occurring assess the dollar impact on the sourcing decision if the risk event actually takes place, and prioritising risks for monitoring and prevention.

10. Establish Roadmap for High Levels of Readiness

The best practices described above do not represent a complete list of every action that top-tier supply line organisations are engaging in now. This list does, however, provide some ideas and perhaps a roadmap for a DoD to constantly strive to be viewed as valued

by Funding Stakeholders. Even if you already have implemented many of these practices, the insights and examples offered here will serve to validate your current strategy. And if you aren't taking all of these steps, then adding the remaining ones to your lineup will help you complete your transformation to a best-in-class supply line organisation.