

Military Orders Sole Supplier



By Peter Provenzano

For the Defense Logistics Agency (DLA), strength may not always rely in numbers. In looking for ways to streamline the process of buying MRO (maintenance, repair, and operations) materials, the agency decided to delegate purchases to a single supplier, instead of managing a battalion of separate contracts and purchase requisitions.

The idea of the integrated supplier dates back to the spice traders. Even in the early part of the last century, grocers would acquire goods from a single source, sparing themselves from the complications of dealing with multiple suppliers for commodities.

Although the needs of vendors have become increasingly more complex over the years, reasons behind single sourcing still boil down to the same goals: to reduce operating costs, create efficiencies, cut inventory-carrying costs, and ultimately, rationalize the supply chain.

Technological revolutions have undoubtedly created efficiencies for supply-chain managers, and the organizations that have implemented these strategies into day-to-day purchasing decisions are gaining a foothold for the future. However, if the dot-com fallout has taught us any lesson, it's that technology in and of itself is not the answer.

Technology can help automate transactions, but it certainly doesn't make up the whole nine yards. For customer satisfaction, there still needs to be a human voice at the other end of the telephone when

a caller has an issue to address and resolve. At the buying level, there still needs to be someone who can identify products at the right price and manage the necessary supplier relationships.

Vendor Selection

The impetus for creating DLA's single-source solution stemmed from an initiative to improve the way federal agencies purchase materials. This initiative, called the Prime Vendor Program, would designate one source as the approved supplier for all MRO materials. Goals were to streamline purchasing functions to help federal agencies better track and manage MRO inventories.

In 1998, after evaluating six bids from MRO suppliers, the DLA awarded a five-year, \$59 million Prime Vendor contract to

SupplyCore, Inc., headquartered in Rockford, IL. The contract covered MRO supplies for the north central region of the U.S. Just a year later, the DLA awarded SupplyCore a five-year, \$36 million-per-year Prime Vendor contract that covered all U.S. military bases in Japan, including Okinawa.

With SupplyCore's integrated program, end-users just log onto the company's Web site to place requisitions. SupplyCore then sources the products from the appropriate suppliers and manages the material flow from supplier to customer. Users can track the status of their orders, create custom catalogs, and aggregate valuable purchasing information to enhance materials management and planning—all with the click of a mouse.

Prior to the Prime Vendor program, overseas military bases stored an estimated six-month's inventory of MRO supplies, mainly because receiving an item might take anywhere from three to 18 months after placing the order. For Master Sergeant Kevin Shavanore, Superintendent of Material Acquisitions and Infrastructure Chief for Kadena Air Force Base in Okinawa, life was like a shell game of patch-fix repairs while waiting for supplies to arrive.

Before contracting with SupplyCore, the base operated solely from a second-generation military system known as CEMAS (Civil Engineering Materials Acquisition System). Master Sergeant Shavanore was relegated to transacting with multiple interfaces and weeding through thousands of items to find needed supplies.

“There were too many different interfaces working against each other, and the requisition process was very long because there were thousands of transactions going back and forth,” says Shavanore. “A lot of the time, you weren’t sure if you were getting the materials or not.”

To complicate matters, if a mistake was made on a requisition, the error would usually go undetected until far too deep into the process. By the time the error was reported to Kadena officials, weeks had passed, and the situation had escalated into an emergency.

By selecting SupplyCore as the MRO Prime Vendor, purchasing functions at Okinawa’s Kadena base are running as efficiently as any state-side military base.

Kadena now averages 50 days from “req-to-check” on an order to the U.S., a process which previously might have taken nine to 12 months to complete. In emergency situations, items can be delivered in as few as seven to 10 days, and global purchases can be delivered in just one day. Instead of carrying a whopping six-month’s worth of inventory, the base has reduced stock levels to about one-month’s worth of supplies.

Proven Savings

Although those directly involved with the Prime Vendor Program attested to the new system’s value, an independent study was conducted to accurately measure and quantify success factors. The Department of Defense commissioned an independent KPMG consulting study to analyze post-implementation, comparative data for fiscal years 2000 and 1998.

To conduct the evaluation, KPMG representatives visited three military bases in Okinawa, including the Air Force’s Kadena base, the Army’s Torii Station, and the Marine Corps’ Camp Butler.

The Prime Vendor Program saw uneven success rates among the three bases because each facility allocated different budget proportions to the program, which boasts total sales of \$17.7 million. Kadena allocates between 95 to 97 percent of their MRO



Peter Provenzano is President and Chief Executive Officer of SupplyCore, Inc.

budget to the program, while Torii Station and Camp Butler dedicate about half. Consequently, Kadena enjoyed the most dramatic improvements to its bottom line.

According to the study, the first significant achievement of the new system was a reduction in total labor and non-labor expenses for all three military bases. Overall, the bases realized cost savings of 14 percent. The SupplyCore program allowed the military bases to reduce inventory levels, minimize time and costs associated with materials management, redirect personnel to handle more strategic issues, and ensure that products were delivered in a reliable, timely manner.

More importantly, the Prime Vendor program decreased FTE (Full-Time Equivalency) costs by 20 percent. To address the human element of purchasing and logistics, FTE costs measure on-the-job hours, such as the number of full-time employees required for specific tasks and duties.

Because SupplyCore took over many of the everyday purchasing and sourcing issues, military personnel were redirected to more strategic issues for increased productivity. In addition, the new system positively impacted not only sourcing, but also the accounting and logistics departments.

Each of the military bases also saw a dramatic improvement in LRT (Logistics Response Time)—from 178 days to 52 days, along with improved consistency of response time.

Instead of using traditional military shipping, which consistently bumped MRO supplies in favor of higher priority products, the Prime Vendor used commercial shipping. The new process resulted in improved response

time, greater reliability, and decreased logistics costs. SupplyCore also organized and consolidated orders for the military bases at its own facility in Los Angeles, CA, to ensure accurate delivery of products.

Even more impressively, work-order completions for the Air Force 18th division increased 103 percent since implementing the Prime Vendor. Because SupplyCore provided commercially available materials consistently and reliably, craftsman had the necessary materials to complete more work orders successfully. SupplyCore also contracted for incidental services in conjunction with products ordered, further freeing up craftsman to work on more pressing projects.

Finally, the study concluded, total labor costs indicated a reduction of about \$590,000, when comparing fiscal year 2000 to 1998.

On the human level, benefits to supply-chain managers like Master Sergeant Shavanore are the ultimate indicators of a program’s success. “We’ve made a lot of changes to the base in the last two years because of that system,” notes Shavanore. “It’s snowballed into getting us more efficient in other areas.” □

Editor’s Note: Peter Provenzano is President and Chief Executive Officer of SupplyCore, Inc. He joined Pro Technical Products, Inc., a predecessor company to SupplyCore, in 1997, where he worked in purchasing, operations, and sales prior to becoming Chief Executive Officer.

Provenzano also serves as a guest speaker for various professional organizations and industry events, including those sponsored by the National Association of Purchasing Management (NAPM) and the International Quality and Productivity Center (IQPC).

SupplyCore’s Internet-based purchasing system, along with the company’s experienced procurement staff, can reduce the total cost of procurement for public- and private-sector clients. For additional information about the company, visit www.supplycore.com on the Internet.