STRATEGIC PLANNING IN THE DEFENSE LOGISTICS AGENCY (DLA)

A Case Study of DLA’s Efforts Under the Government Performance and Results Act

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The kinds of programs and agencies that may find this case study relevant include:

1 DoD organizations
2 Business-like agencies

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1 Agencies with multiple activities

Acknowledgments:

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OVERVIEW

The Walter Reed Army Medical Center started stocking their pharmacies through the Prime Vendor program three years ago. Since then they have reduced warehouse space from seven to half of one, eliminated 32 staff positions and
saved $400,000 in annual leasing and utility costs. That’s just one of many success stories that the Defense Logistics Agency (DLA) can attribute to their participation in both the Government Performance and Results Act (GPRA) of 1993, and the National Performance Review (NPR).

DLA has been involved in formal strategic planning for over 8 years and has continuously improved in their efforts. DLA’s first formal plan was developed using MBO models. Since then, the agency has moved from measuring inputs and outputs to focusing on program results and outcomes. The process did not happen overnight. They have applied the lessons learned in their initial planning processes to their most recent Performance Plan (1996) developed for GPRA pilot purposes, and to their current effort to refine their strategic plan in compliance with the provisions of the GPRA.

Leadership has been dedicated to agency improvements through the use of GPRA and reinvention labs. This support has been instrumental in redirecting the agency’s focus to the customer and improved performance. They continue to refine and improve their processes, and have taken the next step towards development of a true performance budget.

HISTORY/CONTEXT

The Defense Logistics Agency (DLA) provides worldwide materiel and logistics services for the Department of
Defense. DLA consists of three major lines of business:  
1 supply management, which purchases and manages items such as food, fuel, clothing, and medical supplies,  
1 distribution, which receives, stores and issues materiel for use by the Military Services, and  
1 contract management, which manages contracts awarded by DLA, the Military Services, the National Aeronautics and Space Administration, and other federal agencies.  
DLA has an annual budget of over $14 billion dollars and employs over 52,000 personnel. To portray the magnitude of their operations, they have procurements of $9.3 billion, manage $849 billion in active contracts with 25,556 contractors, and process over 40.3 million receive and issue transactions.

Previous Planning Efforts

DLA has been involved in formal strategic planning for over 8 years. Their 1988 Strategic Plan, entitled "Supporting the Armed Forces " reflected a major effort to institutionalize strategic planning in their agency. The plan was focused on strategies to achieve qualitative objectives rather than specific as to targeted performance for mission programs over a specified time frame. The plan had six annexes which contained supporting documents, implementation plans, and functional requirements. An example of a goal and objectives by Strategic Businesses:

**INFORMATION GOAL:** Achievement of the optimum utility of information (Grand Strategy)

**Materiel Management**

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MATERIEL MANAGEMENT OBJECTIVE 1: Obtain sufficient essential materiel to meet readiness and sustainability requirements for the full spectrum of operating scenarios.

MATERIEL MANAGEMENT OBJECTIVE 2: Improve knowledge of customer requirements.

MATERIEL MANAGEMENT OBJECTIVE 3: Achieve a weapons systems support capability which meets the Military Services' availability goals.

MATERIEL MANAGEMENT OBJECTIVE 4: Meet customers' needs at the lowest cost.

MATERIEL MANAGEMENT OBJECTIVE 5: Improve the quality of materiel and processes.

MATERIEL MANAGEMENT OBJECTIVE 6: Maximize the reutilization and transfer of DoD excess property, to offset potential DoD and Federal Agency procurement costs.

MATERIEL MANAGEMENT OBJECTIVE 7: Preclude military and technology sensitive items from entering the civilian marketplace.

Acquisition Services

ACQUISITION SERVICES OBJECTIVE 1: Achievement of modernized information systems and procedures to ensure timeliness, accuracy, and effectiveness of all acquisition services.

ACQUISITION SERVICES OBJECTIVE 2: Achievement of the necessary level of participation with the Armed Forces and OSD to develop and implement initiatives for Total Quality Management and to improve reliability and maintainability.

ACQUISITION SERVICES OBJECTIVE 3: Achievement of systems and procedures capable of supporting contingency, surge, and mobilization requirements. Improved industrial preparedness assessments and capabilities.

Distribution Services

DISTRIBUTION SERVICES OBJECTIVE 1: Improve transportation management to reduce response time and control materiel flow.

DISTRIBUTION SERVICES OBJECTIVE 2: Reduce the cost and improve the effectiveness of the physical distribution system.

DISTRIBUTION SERVICES OBJECTIVE 3: Optimize transportation costs and minimize movement of goods.

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Objectives should have intermediate targets established to aid in goal attainment. Many of the objectives in DLA_s 1988 plan did not list quantitative targets, and were not well-defined, such as "Improve the quality of materiel and processes." While the objectives related to the goals listed, not all contained enough specificity so that a stakeholder could identify exactly what DLA was doing to reach these goals.

**Impact of Reorganization**

When Vice Admiral Edward Straw assumed command of DLA in July 1992, DLA_s field operations consisted of supply centers, distribution regions (depots), service centers and contract management offices. Along with these primary field activities, Admiral Straw managed 16 separate staff elements within the headquarters in addition to having 28 other commanders/executives reporting directly to him. The field activities dealt only with their functional counterparts at the headquarters, creating a "stovepipe " effect within the organization, each operation with its_ own policies and procedures and their own goals and objectives. As an example, a functional office in the headquarters would give a field commander of a service center certain timeframes for transporting goods from storage to shipping to meet goals established in that function. To meet the timeframes the commander would need to either increase the size of his staff or authorize overtime. However, those actions would be in conflict with a goal established by a different function in the headquarters, such as reducing full-time employees.

After three major studies, (DLA II, Synergy Contract, Gang of 10), Admiral Straw proposed a reorganization plan in December 1992 to:

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reduce the stovepipes and bureaucracy, 
reduce his span of control, and 
focus the organization on customer support.

The end result was the realignment of field activities into three business areas: supply, distribution, and contract management. The headquarters 16 staff elements were combined to form three main entities: two business areas (material management and acquisition), and a support area (corporate administration). Each business area deputy director now had control of the budgets for the subordinate activities under them and accountability for the performance of their activities. While Vice Admiral Straw reorganized to improve performance, it also set the stage for the development of their current strategic plan, “The DLA Corporate Plan (1994).”

In January 1994, DLA was approved as a Performance Measurement Pilot under the Government Performance and Results Act (GPRA) of 1993. This was in addition to their involvement in the National Performance Review (NPR) and the Defense Performance Review (DPR).

STRATEGIC PLANNING PROCESS

During 1993 a group of individuals undertook the clarification of DLA’s goals and objectives for publication throughout the agency. The four goals selected paralleled the NPR goals in the 1993 Report of the National Performance Review (Creating a Government that Works Better and Costs Less). These general goals were corporate goals that focused on the customer.

As a separate exercise, the DLA Management Team (composed of department/business heads at the SES and
General Officer level plus the Director and Deputy Director) compiled a list of 54 initiatives for performance improvement, as identified during monthly management reviews, to significantly reduce costs of operations. Though labeled "initiatives ", many were, in fact, strategies. The team aligned these initiatives under the four corporate goals. Seventy corporate performance measures which were DLA_s traditional performance measures were tracked by DLA_s on-line corporate Executive Information System (EIS) and tied to the corporate goals. Matrices were developed that paired the performance measures with the initiatives for each established goal (See Attachment A, Exhibit 1). Once the goals, initiatives, and measures were arrayed, the product was officially staffed through the business and staff elements for input and comment. After many revisions, consensus on the final product was achieved.

The process did not incorporate all of the steps of formal strategic planning. There was not the widespread involvement of the agency in the development of the plan -- a select few developed the goals and initiatives. The performance measures in the EIS were all those that DLA had currently been tracking. The Corporate Plan was more of a loose framework of initiatives than a true strategic plan, but the strong focus on the customer was evident, and the Director_s commitments provided strategic direction to agency managers.

While the planning process was directed and supported from the top down, input from customers kept the organization committed in the right areas. In 1992, the Contract Management Command (DCMC) began a series of structured interviews with their customers. In September of that year, the "1992 DCMC FOCUS Customer Assessment Report 

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was published. The results, although not quantified until later, led to a concentration of effort on a number of processes that needed improvement from their customer’s perspective. During 1993, personnel in materiel management customer organizations, from commanders at deployable units to clerks at the customer receiving points, were brought in at DLA expense to participate in focus groups, headed by Dr. Thomas Mentzer of Virginia Polytechnical Institute. A project team of inventory control point (ICP)/depot representatives subsequently developed a survey for DLA’s customers. While the preliminary survey results would not be complete until 1994, the test survey findings identified six primary attributes which were important to customers and three main areas for improvement:

1. **Availability/quality of materiel**,  
2. **Response time** in terms of item delivery, and  
3. **Quality of contacts** between customers and DLA

Stakeholders were also interested in DLA’s prices, especially **cost recovery factors**. These results contributed towards the development of the customer commitments that are in DLAs Corporate Plan: "**better, faster and cheaper.**" Intuitively, executives knew that these were the most important factors that influence logistics support, but this was the first time these concepts were embedded in their strategic plan.

DLA faced a number of challenges in coming to a consensus on their corporate plan. The reorganization was in process during 1993, but the organizational stovepipes still existed to some degree, and executives were still power-brokering. This created an atmosphere where consensus

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1 This survey was ultimately sent to 32,000 customers with a response rate of over 5,000.
was not easily attainable. Although the reorganization reduced the number of staff elements in the headquarters, there were still a number of people that had to agree on the goals and initiatives, and what it would represent to their business area.

Although personnel from field elements were brought in to help identify customer requirements, the corporate plan was developed by a small number of personnel at the headquarters. This lack of broad involvement across the staff contributed to the lengthy coordination process.

Another challenge DLA faced was trying to align the initiatives, goals, and measures that were developed at different times with different methods and for different purposes into a single, cohesive document. All the pieces were represented in different documents but were not pulled together until the development of the corporate plan.

**STRATEGIC PLAN SUMMARY**

DLA’s current strategic document is called the “DLA Corporate Plan” (1994) which articulates a closer alignment with their mission and provides a focus for the newly-reorganized activity. Their mission statement changed slightly from their 1988 version of “Provide the Armed Forces with effective and efficient logistics support”, expanding the focus to “...support the warfighter in time of war and in peace... ”.

DLA’s Strategic Plan is a compilation of their Corporate Plan, the Individual Business Area Plans, and their Annual Performance Plan (See Attachment A, Exhibit 2).

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The Corporate Plan is the "Big Picture" view of the major areas addressed in their planning process. When GPRA implementation began, the GPRA planning staff proposed development of Individual Business Plans at the business area level. These business area plans were not lower level strategic plans but represented their input into DLA’s GPRA Performance Plan for 1994 and also formed the basis for the business area’s near-term operational plans. The Agency Annual Performance Plan, developed at the headquarters, provides stakeholders with a blueprint on exactly what DLA plans to accomplish in a given year.

DLA’s annual performance goals relate directly to their long-term goals and objectives. DLA’s mission is "... a combat support agency responsible for worldwide logistics support throughout the Department of Defense." The primary focus of the Agency is to support the warfighter in time of war and in peace, and to provide relief efforts during times of national emergency. Their corporate plan revolves around their mission statement and is further defined by their vision and guiding principles. Their four goals are:

1. Put customers first
2. Improve the process of delivering logistics support
3. Empower employees to get results; and
4. Meet customer readiness and weapon systems acquisition requirements at reduced cost

Their corporate plan lists both the goals and a gameplan on how they will accomplish them. DLA will be able to measure performance outcomes by using their corporate Executive Information System (EIS). The desired outcomes are military readiness and customer satisfaction. These will be measured by a number of performance indicators that were developed.
for each business activity and at the corporate level. Examples are:

1 "Logistics Response Time " will be measured by how long (average days) customer orders take to process

1 "Quality Assurance " will track how long it takes to answer complaints from customers on the quality of products they receive

1 "Financial Performance Results " will track how effectively depots are using available resources by tracking unit cost over time.

1 "Customer satisfaction " will be measured by an Index of Customer Perception in all business areas

Possible Roadblocks

There are several factors that could adversely affect DLA_s ability to meet their long-term goals and objectives. Economic factors, such as inflation above normal predictions, could affect their ability to provide materiel " cheaper and faster". This might potentially affect both their short and long term goals.

Direction from Congress, from unprogrammed, reduced funding levels to recommendations for further downsizing/reorganization, could also affect how well they accomplish their mission. Although federal agencies plan, program and budget for financial resources, Congress can change, delete, or rearrange budget priorities and initiatives, which could conflict with DLA_s priorities and initiatives as reflected in their strategic plan. Similarly, Program Budget Decisions (PBDs) issued by the
Office of the Secretary of Defense (OSD) can also affect DLA_s budget and programs.

Leadership changes at the top (director-level) could influence the degree of emphasis put on DLA_s strategic planning process. The director is a flag (general) officer position (normally a three-star equivalent) that rotates between the Army, Navy, and Air Force. Admiral Straw is a strong proponent of strategic planning and the reengineering efforts that DLA has undertaken. A different director could bring a different leadership style that could impact or change the focus on the long term goals and objectives in the current DLA plan. While it appears that DLA has fully integrated strategic planning principles into their daily operations, it is a phenomena in the military for radical changes to occur with a change in leadership.

USE AND IMPACT OF STRATEGIC PLANNING

The agency has gained stature as a result of their planning efforts. They continue to be commended in GAO reports and are often used as a model. In conjunction with the Defense Business Management University (DBMU) they participated in the development and delivery of an Interactive Distance Learning Course on the Government Performance and Results Act (GPRA) that focused on strategic planning, performance plans and performance measures. This training method was documented as a "best practice " by GAO in a recently completed report to Congress, "Executive Guide: Effectively Implementing the Government Performance and Results Act (June 1996). "

DLA_s strategic planning endeavors have improved teaming efforts across their divergent business areas. It

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has also focused their efforts on programming and budgeting priorities that relate to their goals and objectives. They have initiated a Performance Based Budgeting Group which will look at how to implement performance budgeting within their organization. Customer commitments are reflected in the agency’s Program Objective Memorandum (POM), which reflects requirements and proposed funding levels for six years. All DoD agencies develop POM submits which are then combined to create the DoD Future Years Defense Plan. The entire DLA organization recently received a unit citation from the Office of the Secretary of Defense for their extraordinary efforts in committing to $6.3 billion in customer savings in their recent POM submission (FY1996-2001).

DLA has also focused their efforts on analysis of results instead of only looking at the "numbers." An example would be the performance indicator "Logistics Response Time." DLA pioneered the capture and calculation method for the logistics response time measure for DoD and proved that there was measurable data for all the services. At first, they were interested in the overall performance number, and were challenged to continuously improve it. They then looked at the processes involved to understand why they were obtaining the results they did. While this is just a cause/effect situation, it’s important to note that DLA has managed to institute this type of structured methodology or continuous performance review and analysis across the agency.

Agency performance has also increased -- individuals know how to seek out process re-engineering opportunities through their involvement in NPR and continue to make recommendations on how to do it "better, faster and cheaper." In a recent memorandum to the Under Secretary of
Defense (Comptroller) (16 Apr 96), DLA provided 48 reinvention success stories that reflect the major process changes within DLA and their commitment to their customer which have been driven by their strategic planning process (See Attachment A, Exhibit 3). Some examples are:

1 Since December 1994 overall customer wait time has been reduced three days; center processing time was reduced from six days to four; urgent requirements now take an average of one day. DLA contracted with manufacturers and distributors to accept direct orders from military customers which reduced inventory and storage costs. Cost avoidance in the medical area alone in FY95 is projected to be $95.7 million with a projection of $353 million over the next five years.

1 Premium Service, a relatively new program, was developed to reduce order and ship time which offers the Military Services the ability to increase unit readiness. This service provides expedited ordering and time-definite delivery service for critical items that have an impact on customers’ missions. Customers are guaranteed direct delivery in the continental U.S. within 24 hours after receipt of the order, with delivery to all other customers within 48 hours. Premium Service will satisfy their customers’ needs to maintain a high degree of flexible contingency response capability -- it is anticipated that costs to customers will be offset by reductions in the cost of maintaining retail and wholesale inventories and improved workload scheduling.

1 Under the medical Prime Vendor program, 98 percent of orders are delivered within 24 hours, compared to the previous time of 30 days – while at the same time prices are generally
35 percent less than before. This program has allowed inventory reductions of more than 29 percent (valued at $143.5 million), resulting in FY 95 cost avoidance of $95.7 million, estimated at $353 million over the next five years. The Prime Vendor program is an excellent example of how DLA_s strategic planning efforts have resulted in lower costs and improved performance.

Both DLA_s corporate plan and performance plan have been distributed to all supervisors in DLA and provided to a number of customers and outside agencies. Vice Admiral Straw (DLA Commander) holds monthly management reviews to examine selected performance measures in their current performance plan. Examples include:

**Business Area Program Performance Measures**

<table>
<thead>
<tr>
<th>Business Area</th>
<th>Program Measure</th>
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<tbody>
<tr>
<td>Supply Management</td>
<td>Logistics Response Time</td>
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<tr>
<td></td>
<td>&lt; 10 Days</td>
</tr>
<tr>
<td>Distribution</td>
<td>Logistics Response Time</td>
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<td></td>
<td>&lt; 4 Days</td>
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<td></td>
<td>(Mean Avg Hi-pri &amp; Routine-</td>
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<tr>
<td></td>
<td>Depot Processing</td>
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<tr>
<td>Contract Management</td>
<td>Contract Management</td>
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<tr>
<td></td>
<td>10% Improvement</td>
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<td></td>
<td>Effectiveness</td>
</tr>
</tbody>
</table>

**Performance Indicators**

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Business Area</th>
<th>FY96 Target</th>
<th>FY97 Target</th>
</tr>
</thead>
</table>

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Responsiveness
Stock Availability  Supply  85%  85%

Timeliness
Logistics Response  Time
  ICP Processing  Supply  1 day  1 day

Immediate Issues
Depot Processing  Time
  MRO Processing  Distribution  ≤ 1 day hi  ≤ 1 day hi

Customer Supply  85%  85%
Satisfaction Index
  Distribution  85%  85%

(Based on survey scale
range from -5 to +5.  0= Preaward  2.5  3.0
meeting Postaward  2.0  2.5
expectations, 1+ = exceeding expectations

This review helps to form the basis for the performance report that DLA submits under the GPRA, which compares planned performance to actual results. Their goals and measures are also reviewed during development of their programming, budgeting and execution gameplans to insure that they are incorporated into the decision-making process.
**COSTS**

The plans function within the Corporate Administration area has the responsibility of managing the strategic planning function in DLA. There are six permanent members on the plans staff, the majority of which have advanced degrees. The plans staff is augmented by a planning team composed of representation from the corporate organization and the major business areas.

There have been incidental costs associated with their strategic planning efforts, such as printing ($2,000 for three performance plans) which have been consumed within normal operating costs. No additional costs are envisioned for their next strategic plan iteration.

**LESSONS LEARNED**

DLA has found that strategic planning is a continuous process. According to members of DLA’s staff, they found that the process and progress they have achieved through their strategic planning efforts is not generally employed throughout the DoD. Their process of managing for results works within DLA, a “business-like” entity, but is hard to conceptualize in the separate Services that are “pure” military operations. DoD uses the Planning, Programming and Budgeting System (PPBS). A key element in this system is the POM that is submitted by all DoD components. The programming and budgeting cycles in the PPBS for most military operations are predominantly based on inputs, such as numbers of personnel and aircraft, not on achieving outcomes that tie to departmental goals. There are no incentives given to the services for improving performance except to reduce their budget, and the savings that DLA will realize through their initiatives will not be re-invested in DLA, but will be used to satisfy other priorities. This type of incentive does not
successfully “market” the results of strategic planning throughout DoD, especially as budgets have been in a continual decline.

DLA has also realized that their performance measures were mostly output-oriented. This was attributed to their using the measures already being tracked in their EIS. Their first performance plan in 1994 had 34 initiatives and 10 logistics operations that tried to match programs with funding streams. The plan was basically a validation of existing performance indicators and was done prior to the development of the overall DoD Logistics Strategic Plan, 1994 (update of the ASD Production and Logistics Strategic Plan, May 1989). While these measures were appropriate internal management indicators in some cases, DLA realized that they needed to focus on the value of their organization to their customer. Their 1995 plan moved them more towards outcome-based goals and measures. Their 1996 Performance Plan under the GPRA reflects a much more focused set of externally based indicators that are understood by their customers.

They continue to move from control of all the factors that affect their outputs to achieving responsiveness where it makes good business sense.

“Effective and timely training of employees is crucial to effect the cultural change required with this type of strategic planning effort” says Janet Foote, a Senior Strategic Plans Officer at DLA Headquarters. DLA has found that training needs to be continuous to insure that their commitments and challenges, as expressed in their corporate plan, are understood by all employees. The Interactive Distance Learning method is but one type of training employed in DLA. Personal, on-site training/consultation is also provided by strategic plans personnel in the Corporate Administration area.

Other lessons learned include the need to involve all echelons...
in the development of a strategic plan. This is especially important when setting goals and methods of measurement. And finally, committed leadership is needed to overcome the cultural barriers and the fear of accountability.

**NEXT STEPS**

DLA is continuing to refine their strategic planning process and will publish a formal strategic plan this year, using the process prescribed by the GPRA. A team has been established to facilitate the development of business objectives and business area plans and to try to align their goals with their budget. They will continue to implement strategic planning across all business areas, eliciting wide involvement from the bottom-up as well as top-down.

DLA will be working to reconcile the Chief Financial Officers Act performance measures with GPRA measures. They are also trying to quantify and correlate their performance measures to their budget formulation/execution. They have already included their performance measures in their POM, and are on the way to aligning goals with budget dollars, a task that has not been accomplished to date on a wide basis in government. DLA’s next hurdle will be to align their objectives with their business processes.