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AIR COMMAND AND STAFF COLLEGE

AIR UNIVERSITY

SUPPLY DOWNSIZING: HOW TO MAKE THE BEST FIT?

A CASE STUDY BETWEEN AIR EDUCATION AND TRAINING COMMAND AND AIR MOBILITY COMMAND

by

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Preface

As a logistics officer, I have observed several changes in the supply and maintenance career field. Supply manning has been reduced over the past fifteen years due to improved processes and information technology. Programs such as Lean Logistics and Two-Level Maintenance have directly impacted both supply and maintenance processes and attributed to these manpower reductions.

My most recent supply assignment was at the Headquarters Air Mobility Command (AMC). Shortly before departing the AMC supply staff, the command was developing a strategy to meet supply manpower reduction targets identified through the Air Force JUMP START program. JUMP START is the next big round of Air Force outsourcing. This program required Air Staff and each major command to review requirements and provide outsourcing and privatization candidates to support future manpower reductions and support Quadrennial Defense Review initiatives through fiscal year 03.

Outsourcing supply functions is prevalent in today's environment. Air Education and Training Command (AETC) already has many supply squadrons either operated by contractors or civil servants. Compared to AETC, Air Mobility Command (AMC) has very little experience in the supply outsourcing. This research examined the A-76 (or outsourcing) process and looked closely at the supply functions that AETC outsourced during the past two decades. It also examined AMC's supply modernization strategy to determine if their approach is the "best fit" for the command, or, should they adjust their

plan to benefit from AETC's experience? The research documents some lessons that AETC experienced while outsourcing supply organizations. Although in the end the research recommends that AMC cannot follow AETC's lead due to unique command requirements, they can benefit from lessons presented in this paper.

I sincerely appreciate Col Douglas Vanwiggerin, CMSgt David Sutton, SMSgt Ronald Robinson, MSgt Terry Summey, Mr. Carl Gregory, and Mrs. Jan Peters, all professionals from the AMC Supply Staff who provided valuable briefings and insight about the AMC Supply Modernization Strategy.

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Abstract

The 1997 Quadrennial Defense Review (QDR) initiatives recommended the military services eliminate 53,000 civilian and 35,000 military positions by fiscal year 2003. As a result of the QDR, Air Mobility Command is eliminating approximately 850 supply manpower authorizations, over 30 percent of their current authorization. At the beginning of this research, AMC leadership was in the midst of adjusting supply personnel and processes to accommodate these significant reductions. Since that time, the command has developed a three-prong strategy to help the Air Force meet the overall QDR manpower reduction requirements. Their probable approach is to competitive source (also referred to as outsourcing and privatization) many of the supply functions.

The primary reason for outsourcing and privatization is to generate badly needed weapons and infrastructure modernization funds. However, AMC has little experience in outsourcing supply functions within the command. Air Education and Training Command (AETC), however, has successfully adopted supply outsourcing at many of their bases. This situation generates the following questions: Can AETC's past and present outsourcing and privatization effort be adapted to meet AMC supply requirements? How can AETC's supply outsourcing effort be utilized by AMC?

The research paper provides valuable background information concerning outsourcing. Additionally, it discusses the supply squadron organizational structure and explains how supply squadrons throughout Air Force can be aligned differently due to

mission requirements. More importantly, the research paper examines AETC's supply outsourcing history and compares AETC's accomplishments to AMC's current supply modernization plan. It concludes that AMC cannot pursue outsourcing at near the magnitude of AETC. However, the paper presents some of the valuable outsourcing lessons learned by AETC that AMC can utilize.

Chapter 1

Introduction

> *Air Force personnel will focus on preparing for and conducting military operations-their competence-while support activities not deployed for combat will be performed by a robust civilian and competitive private sector. The Air Force is committed to the organizational and cultural change to make this vision a reality.*[1]
>
> —Global Engagement

Outsourcing and privatization is an extremely hot initiative in the Department of Defense. Secretary of Defense, Mr. William Cohen highlighted in the May 1997 Report of the Quadrennial Defense Review (QDR) that all military services need to rely more on the private sector for goods and services. The QDR initiatives recommended eliminating 53,000 civilian and 35,000 military positions in the military services by FY2003.

The Air Force is challenged now, more than ever before, to reduce support infrastructure through outsourcing and privatization in order to generate modernization funds; improve performance; quality, and efficiency of Air Force functions; sustain mission readiness; and focus personnel and resources on the core Air Force mission.[2]

Statement of the Research Problem and Recommendation

As a result of the QDR, Air Mobility Command (AMC) is eliminating approximately 850 supply manpower slots. The Headquarters AMC supply staff is in the midst of adjusting supply personnel and processes to accommodate these significant reductions.

Some probable approaches are to competitive source (also known as outsource) and/or privatize many of the current supply functions. However, the command has little experience in outsourcing supply functions. On the other hand, Air Education and Training Command (AETC) has successfully adopted supply outsourcing at many of their bases.

Since AMC has little supply outsourcing experience compared to AETC, this problem poses the following research questions. Can AETC's past and present outsourcing and privatization effort be adapted to meet AMC supply requirements? How can AETC's supply outsourcing efforts be utilized in AMC?

This research paper examines AETC's supply outsourcing efforts to determine if the AETC approach can be adapted to meet AMC's unique supply mission requirements. The paper also examines AMC's proposed supply modernization strategy to meet QDR initiatives. In the end, this research recommends that AMC cannot outsource supply to the extent that AETC has. Instead, this research paper reinforces AMC's approach of a combination of regionalization, outsourcing, and reengineering. However, it suggests AMC can learn some valuable lessons experienced by AETC during their past supply outsourcing efforts.

Notes

[1] Department of the Air Force, *Global Engagement: A Vision for the 21st Century Air Force.* Washington D.C., 1996, 23.

[2] William S. Cohen, *Report of the Quadrennial Defense Review,* (Washington D.C.: Government Printing Office, May 1997), ix.

Chapter 2

The Outsourcing Process and History

Outsourcing and privatization can generate cost-savings, but can also create concern for Air Force military and civilian members. Many people do not understand the language or processes involved in outsourcing. This chapter will provide some of the key definitions and terms frequently used when discussing outsourcing and privatization. Next, it will explain the "A-76" process and provide background information on requirements. The Air Force outsourcing track record will be highlighted, as well as information on the latest round of Air Force draw down initiatives, the JUMP START Program.

Outsourcing and Privatization Defined

Although the words outsourcing and privatization are often used synonymously, they have different meanings. The Air Force defines outsourcing as the "transfer of a function previously performed in-house to an outside provider."[1] Only the manpower positions are transferred to the contractor and the government is still responsible to control the transferred function through service contracts.

Privatization is "the transfer of control of a target business asset and/or associated activity from the public to private sector."[2] When the government "privatizes", it relinquishes both ownership and responsibility of the function.

Competitive sourcing is a relatively new term the Air Force is using synonymously with outsourcing. It is defined as "competing a function for possible outsourcing or execution by an in-house most efficient organization."[3] The terms "outsourcing" and "competitive sourcing" will be used synonymously in this paper.

The A-76 Process

Competition is key to outsourcing because it generates savings, particularly in the manpower arena. Competition occurs through the Office of Management and Budget Circular A-76 (or A-76) process that establishes federal policy for the performance of commercial activities (CA). A-76 is often referred to as a cost comparison. The Air Force is now relying on the private sector to perform commercial activities to the maximum extent possible. However, a CA must be identified as a candidate for outsourcing prior to a cost comparison study being accomplished. A cost comparison study is used to determine which method of outsourcing generates the most cost savings—retaining the work in-house for government civilians or contracting the work out to a private company.

In this process, a performance work statement (PWS) is developed to identify performance requirements, organizational structure, and procedures to use the "minimum amount of resources for the most efficient in-house performance of the CA."[4] An accurate PWS is critical to the process because the PWS provides the government's requirements and establishes a basis for the government to build a most efficient organization to meet these requirements. The government develops a most efficient organization (MEO) based on the PWS. The MEO is the government's in-house organization that competes with the private sector in a cost comparison study.[5] If the

PWS is weak then the organization, whether a MEO or contractor organization designed to support the PWS will also be weak.

A-76 Requirements

There are numerous provisions that directly effect outsourcing efforts. Different rules and laws can make the process long and complicated due to exhaustive documentation and reporting requirements. For example, United States Code Annotated, Title 10, Chapter 146, Section 2461 mandates that services provide exhaustive studies and reports before outsourcing any function performed by 45 or more government employees. This includes a requirement to inform Congress when a study is anticipated and the cost comparison study prior to the final decision.[6] Chapter 146, Section 2464 requires that the Department of Defense (DoD) "maintain a government-owned and government-operated core logistics capability to ensure a ready and controlled source of technical competence and resources necessary to ensure effective and timely response to a mobilization, national defense contingency situations, and other emergency requirements."[7] Section 8020 of the fiscal year (FY) 96 DoD Appropriations Act requires a detailed MEO analysis of functions with 10 or more DoD civilian employees; and, section 8043 of the same Act mandates time limits for studies from the announcement to decision. It restricts the use of appropriations for cost comparisons that exceed 24 months for single functions and exceed 48 months for multiple functions.[8]

Moreover, inherently governmental positions or military essential activities cannot be outsourced. The *Air Force Commercial Activities Program Instruction* describes an inherently governmental activity as "intimately related to the public interest as to mandate performance by government employees."[9] This includes activities where

government authority is needed to make decisions on behalf of the government. For example, an activity that obligates government funds or binds the government is inherently governmental. "Military essential" is defined as those positions critical to direct combat support, positions part of military heritage, positions necessary to apply authority as deemed in the Uniformed Code of Military Justice, those needed to fill overseas assignment rotations, or those positions having specific skills that civilians cannot perform.[10] Some supply positions are not fenced by either of these definitions and are prime candidates for outsourcing. Others may be deemed as military essential. A good example of military essential positions are those positions that are tied to a specific unit type code (UTC), a code identifying the position directly to a force package. Current guidance prohibits positions with a UTC to be outsourced.

Air Force A-76 Track Record

This paper will examine AETC's outsourcing efforts, but first it is important to highlight some significant Air Force achievements. According to the Program Manager for Air Force Commercial Activities, the Air Force program is very successful. Since 1978, our service has generated an estimated 36 percent savings through 1,259 competitions.[11] This equates to an estimated seven billion dollars. Competition generates savings, whether the contractor wins the competition or it remains in-house. Sixty percent of the A-76 studies resulted in outsourcing to a contractor; while, 40 percent remained in-house with the MEO.[12] *AETC Competitive Sourcing*, a briefing provided by the AETC Competitive Sourcing and Privatization Section, highlights similar cost and manpower savings experienced specifically by AETC. At the time of this briefing, the command had

experienced 10,000 personnel reductions for a 33 percent manpower savings average. Additionally, AETC experienced an estimated $160M annual cost savings.[13]

Historical data also indicates more savings can be achieved when larger functions are competed. The Air Force Center for Quality Management Innovations (AFCQMI) facilitates outsourcing and privatization,. Their data indicates that during the past ten years, functions with 26-50 personnel achieved 16% savings; 51-100, 30%; 101-300, 37%; and, over 301, 42%.[14] AETC also reports these same figures (plus or minus one percent).[15]

There is little doubt that outsourcing can generate savings through competition and manpower reduction. However, the General Accounting Office (GAO) reports the estimated savings may be inflated because most DoD figures favor the initial savings experienced primarily during the first three years after outsourcing. Furthermore, reports indicate services monitor savings during the first three years but fail to accurately update savings databases after three years. GAO further suggests the "magnitude of savings from outsourcing over time" will probably be less than originally estimated because DoD and Office of Management and Budget do not "routinely collect and analyze cost information to track savings."[16] This point is key as the Air Force increases emphasis on outsourcing supply functions to fund modernization. So, where do we draw the line? How many functions do we select for outsourcing when we are not quite sure of the magnitude of savings? These are critical questions, especially in the midst of the upcoming round Air Force outsourcing—a program called JUMP START.

JUMP START

JUMP START is an Air Force concept defined as "next large round of outsourcing for the Air Force."[17] According to a Chief of Staff memorandum, JUMP START is "the program name for a systematic approach to identify O & P candidates to help meet recommendations that came out of the May 1997 Quadrennial Defense Review."[18] Under this concept, Air Staff and major commands (MAJCOM) reviewed non-military essential functions and identified potential functions that can be outsourced or reengineered. Reengineering refers to "taking a process, breaking it down, analyzing the minute details, then refining and rebuilding it into a more efficient organization."[19] According to Lt Gen William P. Hallin, Deputy Chief of Staff, Installation and Logistics, we often do reengineering to "cut the fat" and while doing that, usually discover inefficiencies that can be corrected.[20] He also explains that reengineering involves using advanced technology to improve processes. The ultimate JUMP START goal is to produce outsourcing and privatization candidates and areas that can be reengineered to support QDR initiatives through fiscal year 03.[21]

Headquarters United States Air Force, Plans and Programs (HQ USAF/XP) is the Air Force's office of primary responsibility for JUMP START. During a joint review conducted between air staff and MAJCOMs, over 41,000 positions across the Air Force were identified for cost comparison studies or reengineering initiatives. This JUMP START review required the MAJCOMs to compare all personnel positions against UTCs and also compare personnel positions that are not required to support overseas rotations. After a final review, HQ USAF/XP, provided the potential candidates for outsourcing or reengineering to the MAJCOMs to execute.[22]

Although this paper will only address the supply career field, fuels functions are sometimes combined under supply when discussing personnel authorizations. The Air Force JUMP START target for supply is 6,334 positions--23 percent of the total supply population in today's Air Force.[23] When discussing, specific AETC and AMC initiatives, this paper is referring to supply functions.

The A-76 process combined with the JUMP START have a dramatic impact on the supply organizational structure and supply manpower. As the supply community tackles these tough issues, there are several reengineering initiatives that will reshape the supply organization to reduce manpower and improve processes. These reengineering initiatives lay the foundation for the supply's future plans.

Notes

[1] Briefing, Air Force Center for Quality Management Innovation (AFCQMI), subject: Outsourcing and Privatization, 5 January 1998, 7.

[2] Ibid, 7.

[3] Ibid, 55.

[4] *Air Force Commercial Activities Program Instruction*, July 1998, 64.

[5] Ibid.

[6] US Department of Defense, *Outsourcing and Privatization* (Washington, D.C.: Office of the Under Secretary of Defense [Defense Science Board Task Force], August 1996, 38A.

[7] Ibid.

[8] Ibid.

[9] *Air Force Commercial Activities Program Instruction,* 15-16.

[10] Ibid, 22.

[11] Briefing, Headquarters United States Air Force, Program Manager, Air Force Commercial Activities (HQUSAF/XPMR), subject: Air Force Commercial Activities Program, September 1998, 15.

[12] Ibid.

[13] Briefing, Maj Bob Claypool, subject: AETC Competitive Sourcing, September 1998, 16.

[14] Briefing, AFCQMI, subject: Air Force A-76 Good News, 9.

[15] Briefing, Maj Bob Claypool, 20.

Notes

[16] General Accounting Office, *Base Operations: Challenges Confronting DOD as it Renews Emphasis on Outsourcing.* (Washington, D.C.: Government Printing Office, March 1997), 8.

[17] Gen Michael E. Ryan, Chief of Staff, US Air Force, memorandum for record, subject: Getting the Word Out on Outsourcing and Privatization (O&P), 16 March 1998.

[18] Ibid.

[19] Lt Gen William P. Hallin, "Reengineering Air Force Logistics," *Air Force Journal of Logistics* XXII, no. 1: 1.

[20] Ibid.

[21] Ibid.

[22] AFCQMI, subject: Outsourcing and Privatization, 29.

[23] Ibid, 30.

Chapter 3

Changing World of Supply

The supply community has already experienced many logistics reengineering initiatives that reduced supply manpower. These manpower reductions date back to the late 1980s. First, the two-level maintenance concept removed a vast majority of in-shop maintenance capability at base level. Lean Logistics closely followed and reduced supply inventory at bases.

While it made sense to reduce supply manpower to complement these initiatives, the supply community must have a smart strategy to endure further reductions. With approximately 23 percent of the career field targeted for reduction, supply will still be required to provide customer support, particularly to the war fighter.

Supply experts are now focusing attention to the future in order to meet QDR initiatives and the large JUMP START target. The QDR states the following:

> Reduce logistics support cost by integrating organizations and functions (supply, financial, automated data processing, transportation, maintenance, and procurement) now being performed at multiple locations in a common geographic area. Each military department will reduce inventories and operating costs by sharing and linking consumer-level inventories and by eliminating redundant facilities and operations.
>
> Compete, outsource, or privatize military department infrastructure functions that are closely related to commercial enterprises. Most of these actions involve logistics and installation support functions.[1]

The Air Force supply experts are aggressively pursuing these initiatives through various avenues. First, reengineer functions and the supply structure by establishing regional centers. Second, outsource entire supply squadrons, and/or outsourcing supply functions not required for war; and finally, reengineer different supply processes by inserting technology or consolidating functions with similar tasks or responsibilities. As mentioned previously, reengineering is "refining and rebuilding"[2] an organization to be more efficient. This chapter will discuss these initiatives that are reshaping supply and provide the reader a better understanding of a "typical" supply squadron and its functions.

Reengineering through supply regionalization is fast occurring. However, it is not a completely new concept as supply has some experience with regional functions. During DESERT SHIELD and DESERT STORM, a supply contingency center was established at Langley AFB, Virginia to provide a centralized ordering process to support forward deployments. This Air Force Contingency Supply Squadron still provides support to different areas of responsibility. Air Force leadership anticipates regional centers in four major commands will reduce approximately 570 positions.[3]

Outsourcing supply functions is another approach to reshape supply. AETC began outsourcing supply squadrons during the 1960s; and they continue to pursue outsourcing entire squadrons. They recently changed their strategy from outsourcing several base operations support functions under multiple contracts to a strategy of performing a "best value" cost comparison for the entire base under one contract.[4] As one can see, for AETC, at least, outsourcing is the way of the future.

A more recent approach to reshape supply is reengineering processes by consolidating common functions from different squadrons. For example, Shaw AFB is

testing the consolidation of several supply and transportation functions.[5] Additionally, new technology will allow supply squadrons to restructure some supply processes.

Why these different approaches? Why not outsource everything? What is the best fit for a particular command or squadron? It is important to understand the basic supply squadron organizational structure because the supply initiatives mentioned thus far will impact this basic supply structure. AMC plans to realign this structure to be more efficient and meet their JUMP START target. Their plan is discussed later in this paper.

Base Supply Organization

A supply squadron is organized into flights and elements that operate the Standard Base Supply System (SBSS). SBSS is an in-line "accounting system encompassing computer equipment, programs, procedures, and supply policy."[6] The system accounts for supplies and equipment by maintaining records loaded in the system. Figure 1 illustrates the basic AF supply organizational structure (excluding Fuels Flight/elements).

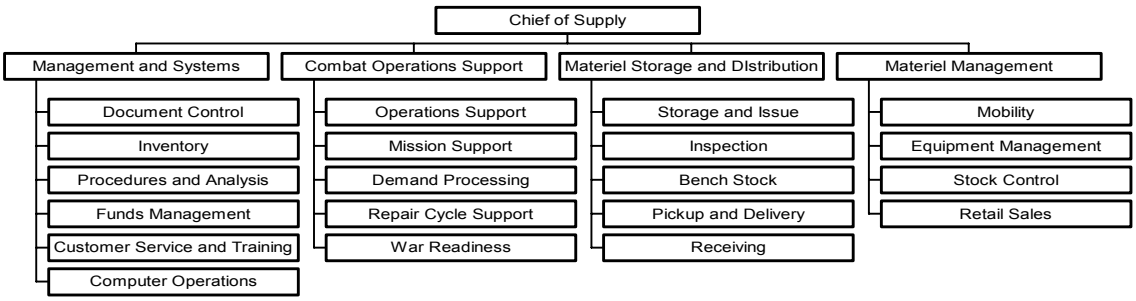

Figure 1: Typical Base Supply Organization[7]

It is not important for the reader to understand each function in Figure 1. However, it is important to gain a basic understanding because major commands use this structure as a baseline to realign supply functions and meet specific command mission requirements. Major commands are allowed flexibility to deviate from this structure and move

functions from one flight to another in order to enhance mission support. Therefore, even within major commands, squadrons are aligned differently. Chapter 5, Figure 3, illustrates AMC's proposed future base supply. While most functions illustrated in Figure 1 are also included in their plan, some are aligned under different flights than those listed in Figure 1.

Most supply functions are commercial activities, thus, are viable candidates for outsourcing. However, the extent of what can be outsourced at a particular base supply is driven by legislation and provisions discussed in the previous chapter. For example, the Combat Operations Support Flight (see figure 1) Operations Support Element directly supports aircraft maintenance through a decentralized flight line support concept.[8] War Readiness manages readiness spares packages (RSP), a critical war fighting function necessary to ensure forces can be deployed and sustained at bare bases, enroute locations, or other bases.[9] The Repair Cycle Support Element establishes forward supply points for pre-positioned spares such as wheels, tires, propellers, etc.[10] These elements usually have carry a heavy UTC tasking to support mobility requirements. Therefore, these may not be candidates for outsourcing because of a particular wing's mission. However, the other functions under this flight could be prime targets to outsource.

The Materiel Storage and Distribution Flight (see figure 1) receives property into the supply system, stores the property (excluding RSP and supply points), and inspects and delivers the property to customers.[11] Ongoing efforts to streamline processes allow this flight to be eliminated and its functions incorporated under other flights with major command approval.[12] Since these functions are commercial activities they are prime candidates for outsourcing.

Materiel Management (see figure 1) has many of supply's "backshop" functions. Air Force Manual 23-110, *USAF Standard Base Supply System* states "supply squadrons will eliminate the Materiel Management Flight not later than 30 Sep 99…as they regionalize and/or implement inventory reduction efforts."[13] Although the flight will be eliminated, its functions may also be incorporated under other flights. Many squadrons across the AF have already relocated some functions into the Combat Operations and Management and Systems Flights. Since many of these functions are "backshop" they are also prime targets for outsourcing.

Important Readiness Indicators

Logistic leaders monitor several indicators to ensure the depot and base supply systems are supporting the mission. Although a base supply squadron may not have total control over some of these indicators, they are still directly involved. The following indicators provide valuable input to the overall health of the supply account.

Not Mission Capable Supply (NMCS) rates reflect the amount of time a weapon system is incapable of performing a mission due to lack of spare parts. This rate is established by the major command. Issue effectiveness measures how well supply can immediately satisfy customer requirements from stock available on the shelf. Stock effectiveness measures the same thing, except it does not penalize supply for not having an item readily available if the item has not been ordered before. The Weapons System Management Information System (WSMIS) assesses the ability of readiness spares packages to support a particular aircraft fleet or squadron for a 30- and 60- day period. This rate is a primary input for wing commander's readiness ratings that are reported up to major commands and Air Staff.[14]

In summary, many of the supply functions are commercial activities, thus, are prime candidates for outsourcing. Again, the magnitude of outsourcing these functions depends on distinct mission requirements that will be discussed later in this paper. First, we must examine AETC who has successfully outsourced entire supply squadrons to gain an appreciation for what outsourcing can accomplish.

Notes

[1] William S. Cohen, *Report of the Quadrennial Defense Review,* (Washington, D.C., Government Printing Office, May 1997), 55.

[2] Lt Gen William P. Hallin, "Reengineering Air Force Logistics," *Air Force Journal of Logistics* XXII, no. 1: 2.

[3] Ibid, 1.

[4] Briefing, Headquarters Air Education and Training Command, Deputy Director of Logistics (HQAETC/DLG), "Competitive Sourcing and Privatization (CS&P) Issues", to Advanced Logistics Officer Course, April 1997, 10.

[5] Hallin, 2.

[6] Air Force Manual (AFMAN) 23-110CD, *USAF Standard Base Supply System,* CD-ROM, Air Force Supply Systems Electronic Publishing Library, January 1999, vol. 2, part 2, 1-1.

[7] Ibid, 2-68.

[8] Ibid, 2-46.

[9] Ibid, 2-45.

[10] Ibid.

[11] Ibid, 2-56.

[12] Ibid, 2-68.

[13] Ibid.

[14] United States Air Force, *Advanced Logistics Officer Course,* CD-ROM, Advanced Training Technology, April 1997.

Chapter 4

AETC History—Outsourcing Supply Functions

AETC has clearly been a lead command for outsourcing support functions at many bases, to include logistics functions. Outsourcing through competition has produced cost saving for AETC, namely through manpower reductions.

This chapter discusses AETC's missions that drive supply requirements and provides a significant overview of supply functions at host AETC bases, particularly those outsourced over the past decades.

AETC Mission

AETC has three primary missions: recruiting, training, and providing "joint medical service, readiness, and Air Force Security Training."[1] The command also owns the USAF Recruiting Service located at Randolph AFB, Texas and several units throughout the CONUS. It is also responsible for basic military training, technical training, training pilots and navigators, and professional military education training for both officers and enlisted personnel.[2] The command possesses a myriad of aircraft to provide undergraduate and advanced pilot and navigator training.[3] Since the focus of AETC is training, supply personnel are not tasked as heavily to support deployments when compared to other commands.

Outsourcing Success

AETC began performing cost comparison studies in the early 1980s. Vance AFB was outsourced during the 1960s but was not outsourced based on a study. Approximately 260 different functions have been either outsourced or converted directly to a contractor. The produced cost savings is impressive as the command reduced manpower by 9,000 slots with a "$135 million annual cost avoidance".[4] Overall, AETC has produced an estimated 32 percent average cost savings, with a majority being in manpower savings.[5]

AETC's Logistics Staff summarizes that their outsourcing experience is very successful adding "experience with contract and civil service workforce has been positive", and, "aircraft mission capable rates are unaffected."[6]

Supply Functions Outsourced in AETC

AETC's success can partly be attributed to outsourcing many of the supply squadrons. Currently, there are 13 supply accounts in the command. Two are most efficient organizations (MEO); four are contractor operated; five are potential future candidates; and, three are currently reengineering processes (much like AMC).[7]

The supply functions in AETC were primarily outsourced under base support studies. However, Vance AFB was not part of an A-76 study when it was converted to contractor support under an omnibus contract.[8] Sheppard AFB supply account is the exception and was outsourced under a cost comparison competition involving strictly supply and fuels. Table 1 provides an overview of the bases where supply functions were outsourced either to a contractor or an MEO. It also provides the estimated cost savings achieved primarily through manpower reductions.

Table 1. Overview of AETC Outsourced Supply Functions

AF Base	Congressional Approval Date	Contract or MEO Implemented	Estimated Costs Savings	Percentage Cost Savings
Sheppard	29 Sep 82	1 Apr 85	Not available	Not available
Goodfellow	19 Jan 91	1 Oct 94	$3,584,000	32%
Columbus	24 May 93	4 May 98	$21,350,000	36%
Laughlin	9 Apr 92	1 Oct 96	$29,838,000	50%
Tyndall	2 Dec 94	1 Oct 97	$88,359,000	40%

Source: Commercial Activities Management Information System (CAMIS) reports, accessed 23 Nov 98.

Notably, the percentage of cost savings illustrated in Table 1 are close to the estimates illustrated in an "*A-76 Good News"* briefing by the Air Force Center for Quality and Management Innovation (AFCQMI).[9] The estimated dollar amount is the estimated savings over 48-month periods except Laughlin and Tyndall. Laughlin and Tyndall cost savings are based on a 60-month period. Moreover, the figure for all bases listed in the table, except Sheppard, include the entire base support study. Therefore, supply savings are not listed separately.

It was extremely difficult to obtain specific supply cost savings over an extended period of time. While the author has little doubt that outsourcing indeed has saved manpower directly converted into dollars, the exact magnitude of savings is an "estimate". As previously explained, GAO reports estimated cost savings may be inflated by DoD because most figures indicate initial savings just after contract or MEO implementation. GAO also reports, "savings estimates represent projected, rather than realized savings" and, "actual savings have not been tracked."[10] For example, Sheppard AFB was outsourced in FY85 and the Commercial Activities Management Information

System (CAMIS) report used to track this information reflects "0" for original operating costs and "0" for estimated savings.[11]

As a result of competition, MEOs were implemented at Goodfellow and Columbus, and contracts were implemented at Sheppard, Laughlin, and Tyndall.[12]

According to a review of several key supply indicators, the MEO and contractors are providing good supply support to the applicable bases to ensure mission success.[13] Although there are some negative trends concerning NMCS and stockage effectiveness rates, overall support is good.[14] It is important to note that negative trends are sometime misleading. Although these type indicators are used to gauge base supply support, they are not produced in a vacuum. For example, NMCS and stockage effectiveness rates are directly affected by depot support. If the depots don't produce these rates suffer.[15] Overall, it appears the mission is getting done and supply support is good.

New Direction

GAO reports there are two methods that can produce even greater potential for cost savings. First, use "omnibus contracts, rather than multiple contracts" and second, "convert military support positions to civilian or contractor positions."[16]

AETC is following these recommendations by performing larger studies involving more personnel. Their new approach, "Pick-a-Base"[17] will include a maximum number of support functions rolled under one umbrella. They contend this will reduce problems with mission and personnel and it is just the plain smart thing to do.[18] Maxwell AFB, Alabama is the first base selected under this new philosophy and is currently under study.[19] It is too early to tell whether more cost savings will be achieved under this new approach versus the old approach.

Meanwhile a supply newsletter, *Supply 2000, Where Are We Headed?*, discusses the outlook and explains "within the supply career field, plans are for most of AETC to be outsourced as well as most of the supply accounts within AFMC."[20]

In summary, AETC has saved money through supply outsourcing, although the magnitude of savings is debatable. Additionally, MEOs and contractor-operated supply organizations are performing satisfactorily to meet AETC mission requirements. The command is pursuing further outsourcing and will probably continue to outsource entire supply squadrons. With that said, can AMC follow AETC's lead and outsource more supply functions than they are currently planning to outsource? Or, is the current AMC modernization strategy a better fit for the command? To answer these questions, we must examine AMC's approach.

Notes

[1] Air Force Association, "Air Education and Training Command", *Air Force Magazine* 81, no. 5 (May 1998): 77.

[2] Ibid, 78.

[3] Ibid.77-78.

[4] Briefing, Headquarters Air Education and Training Command, Deputy Director of Logistics (HQAETC/DLG), "Competitive Sourcing and Privatization (CS&P) Issues", to Advanced Logistics Officer Course, April 1997, 12.

[5] Ibid.

[6] Ibid, 13.

[7] Briefing, Headquarters Air Education and Training Command, Functional Manager, "AETC's Approach to a "New Era" in Supply", to Worldwide Supply Manager's Conference, October 1998, 4-5; on-line, Internet, November 1998, available from http://www.il.hq.af.mil/ils/ilsp/afseb/supman.htm.

[8] Susan Chapman, "The Push to Privatize", *Air Force Magazine* (August 1996), 68.

[9] Briefing, AFCQMI, subject: Air Force A-76 Good News, 7.

[10] General Accounting Office, *Challenges Facing DOD as It Attempts to Save Billions in Infrastructure Costs* (Washington, D.C.: Government Printing Office, March 1997), 8.

[11] CAMIS report.

[12] Ibid.

[13] Briefing, 14th Logistics Division, Columbus AFB, MS, December 1998.

[14] Ibid.

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[15] Ibid.

[16] General Accounting Office, *Base Operations: Challenges Confronting DOD as it Renews Emphasis on Outsourcing.* (Washington, D.C.: Government Printing Office, March 1997), 2.

[17] Briefing, Headquarters Air Education and Training Command/LGC/XPMBC, subject: AETC Competitive Sourcing and Pick-a-Base Status, October 1998.

[18] Briefing, Maj Bob Claypool, subject: AETC Competitive Sourcing, September 1998,8-12.

[19] Briefing, subject: AETC Competitive Sourcing and Pick-a-Base Status.

[20] "Supply 2000, "Where Are We Headed?", on-line, Internet, November 1998, available from http://lg.aetc.af.mil/supply/fos.htm.

Chapter 5

AMC Approach to Reshape Supply

> *Global mobility has increased in importance to the point where it is required in virtually every military operation.*[1]
>
> —Air Force Doctrine Document 1

Thus far, this paper has explained the A-76 process, QDR requirements, the JUMP START program and the basic supply squadron organization. Additionally, the paper has discussed AETC's outsourcing experience. We now turn our attention to AMC's mission, its unique supply mission—the forward supply system (FSS), and the Headquarters (HQ) AMC strategy to meet these requirements.

AMC Mission

AMC's mission is to "provide rapid, global tactical and strategic airlift and aerial refueling for U.S. Armed Forces and support wartime tasking by providing forces to theater commands."[2] The command performs its strategic airlift mission using C-5, C-17, C-141 fleets. The C-130 fleet supports tactical airlift, while the KC-10 and KC-135 aircraft provide aerial refueling. AMC is continuously engaged delivering resources both overseas and in CONUS. Strategic airlift, tactical airlift, and tanker refueling support seldom slows down, flying much in peacetime as they will in war.

For this reason, it is vitally important to have a solid supply support structure. AMC supply squadrons are tasked to directly support aircraft maintenance by providing parts to repair aircraft at home station and deployed. They deploy readiness spares packages with personnel to worldwide locations during both exercises and real world contingencies. Moreover, many of the supply squadrons are responsible for stocking and expediting parts to support enroute forward supply locations around the globe to prevent unnecessary mission delays. One way AMC supply squadrons provide overseas and enroute bases/locations with frequently used mission critical spares is known as the Forward Supply System.

Forward Supply System Overview

The Forward Supply System (FSS) is comprised of forward supply locations (FSL), forward supply points (FSP), and primary supply points (PSP). The system is designed to sustain scheduled missions and provide proactive supply support to minimize grounding conditions for airlift. PSPs are strategically located within the Combat Operations Support Flight at AMC bases on the east and west coasts. They stock, replenish and issue high priority aircraft parts to the FSLs and FSPs located around the globe. For example, The PSP at Dover AFB handles stock replenishment for C-5 aircraft. Although they can send a part anywhere, their primary focus is supporting the FSL and FSP in the European theater. The system is unique because the FSL orders parts from the PSP versus ordering from a depot. This around-the-clock process speeds up replenishment and prevents unnecessary delays. The Forward Supply System was extremely successful in the Gulf War and continues to provide superior support.[3]

Consequently, the FSS is not only a critical war fighting capability that must be maintained, but also a critical peacetime system to ensure a steady flow of global airlift.

Plans to Reorganize

AMC's JUMP START target for supply is 843 personnel, approximately 33 percent of assigned personnel. Their approach to meet this number includes several different avenues. First, establish reengineer processes to include establishing a regional center. As previously mentioned, reengineering involves "refining and rebuilding it into a more efficient organization."[4] Reengineering also includes using advanced technology to replace and reduce existing manpower. Both of these reengineering initiatives will ultimately reduce manpower requirements. Another approach AMC is using to meet the JUMP START target is pursue outsourcing where it is feasible.[5]

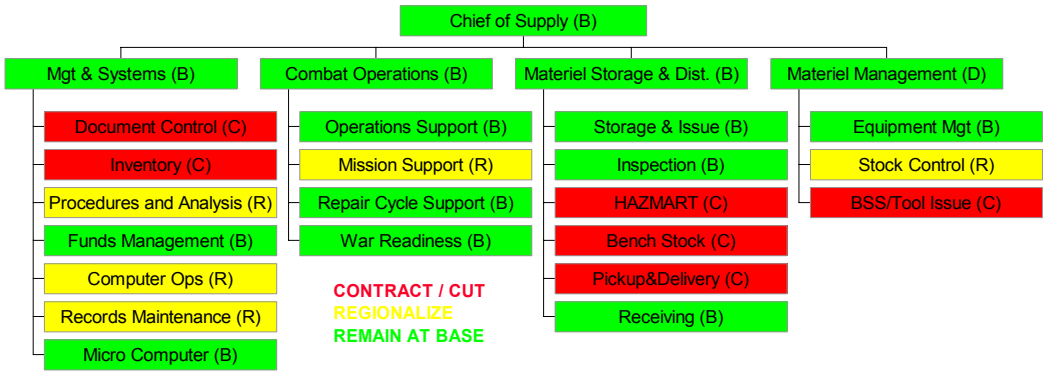

Figure 2. AMC Approach to Modernization[6]

Figure 2 provides an overview of AMC supply initiatives. An "R" denotes the functions that will be relocated to the regional center. Supply functions to be outsourced or completely eliminated are denoted by a "C". "B" denotes the supply functions that will remain at a current base. The Materiel Management Flight overhead (designated by "D") will be eliminated no later than 30 September 1999, and the Materiel Storage and

Distribution overhead also could be deleted.[7] AMC will realign many of these functions under other flights. Others will be regionalized, outsourced, or downsized or eliminated due to reengineering. Those functions that will be outsourced or eliminated are illustrated in figure 3 under a Base Operations organization with contractor of MEO personnel.

Figure 3 illustrates the proposed base-level AMC supply structure after the establishment of a regional center.

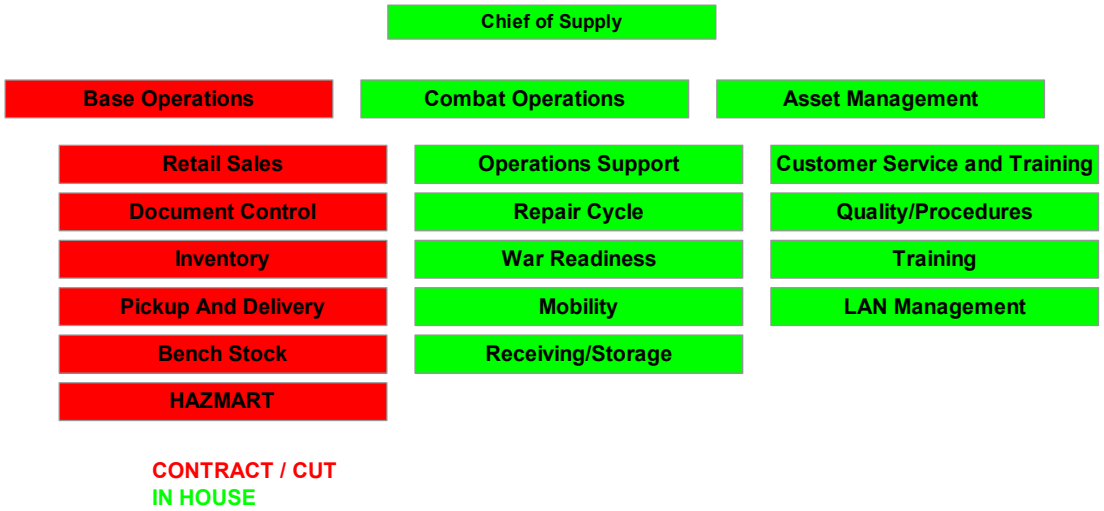

Figure 3. AMC Future Base Supply[8]

There are also other areas AMC will reengineer. Advanced technology like the new Supply Automated Tracking System (SATS) greatly reduces paper trails and improves inventory accuracy. This allows AMC to directly cut manpower authorizations without outsourcing resulting in saving approximately 60 manpower slots.[9]

Although the AMC supply community has little experience with outsourcing when compared to AETC, they are now heavily involved with the outsourcing process. Supply functions at Scott AFB and Andrews AFB were selected as candidates for outsourcing

during 1997 prior to the QDR. Outsourcing supply functions in these squadrons will cut approximately 350 positions.[10]

As illustrated in figure 2, AMC will not outsource entire flights. However, through a combination of outsourcing or eliminating some of the manpower associated with those functions identified in figure 2, this approach will offer up the following command-wide manpower savings:

- Inventory: 50
- Hazardous Materiel Pharmacy (HAZMART): 40
- Bench Stock: 31
- Retail Sales (referred to on chart as BSS/Tool Issue): 101
- Combined Mobility Bag Center (located at MacDill AFB and not on slide): 15

However, when spreading these numbers across ten AMC Base Supply squadrons, this offers up little to outsource as compared with AETC.

A review of the AMC supply unit manpower document reveals that AMC supply squadrons are aligned in various ways. For example, one base may have a Materiel Management Flight while another has already incorporated those functions under another supply flight. The mission is still being accomplished, but the organizational structures between bases vary.[11] This finding validates a Dynamics Research Corporation *Air Force Supply Regionalization, Outsourcing, and Privatization Study* that states,

> One important lesson learned in this study was that a "standard" base supply account does not exist. During the past years the Air Force has moved away from standardization and has supported decentralization and empowerment at the lowest level. Over time, supply squadrons have been reshaped based on the mission they support and the leadership style of their commanders. As a result, supply squadrons are distinct and diverse organizations today. Even though Supply as a whole is not longer standard, some "back shop" functions have retained a thread-of commonality across commands and missions. It is these back-shop processes that present the greatest savings potential.[12]

Should AMC utilize AETC's approach--select entire squadrons or more functions for outsourcing? This research recommends AMC not adapt AETC's approach answer because AMC's unique global mobility mission requires supply personnel fill many UTC positions. Although they can outsource some functions, outsourcing alone will not meet AMC supply requirements. Combining regionalization, outsourcing, and reengineering are the best approach for AMC. The next chapter will discuss these points.

Notes

[1] Air Force Doctrine Document (AFDD) 1, *Air Force Basic Doctrine,* September 1997, 33.

[2] Air Force Association, "Air Mobility Command", *Air Force Magazine* 81, no. 5 (May 1998): 92.

[3] John Schade and Col Thomas W. Christensen, "The Forward Supply Support (FSS) System—the Gulf War and Beyond: Why the FSS System Is a Supply Success Story," *Air Force Journal of Logistics* XXI, no. 2 (Spring 1997): 1.

[4] Lt Gen William P. Hallin, "Reengineering Air Force Logistics," *Air Force Journal of Logistics* XXII, no. 1: 1.

[5] Briefing, HQ AMC Supply Division, subject: Supply Modernization, 19 October 1998, 9.

[6] Ibid, 9. This slide was modified by author with AFMAN 23-110 flight titles.

[7] AFMAN 23-110CD, *USAF Standard Base Supply System,* CD-ROM, Air Force Supply Systems Electronic Publishing Library, January 1999, vol. 2, part 2, 2-68.

[8] Ibid, 10.

[9] Briefing, HQ AMC Supply Division, subject: Supply Modernization, 4.

[10] Ibid, 4.

[11] Headquarters Air Mobility Command Supply Division, *Unit Manpower Document (UMD)*, 98/04.

[12] Dynamics Research Corporation Systems Division, *Air Force Supply Regionalization, Outsourcing, and Privatization Study,* Interim Technical Report V.3, 14 April 1997, 27.

Chapter 6

The Best Fit

This paper has identified several key concepts concerning outsourcing, specifically within the supply career field. First, outsourcing produces cost savings particularly through manpower reduction. Second, supply outsourcing is occurring across the entire Air Force to meet JUMP START targets. Next, AMC has a different approach than AETC in the areas of outsourcing and supply modernization. Finally, a conclusion has been established that there is no "standard" supply squadron throughout the Air Force.

AMC's unique mission requirements will not allow AMC to outsource supply functions to the magnitude AETC has in the past. However, there is a best fit for AMC—a combined strategy—regionalizing, outsourcing, and reengineering. Although AMC cannot completely follow AETC's outsourcing efforts, there are many valuable lessons AMC can take from AETC.

Mission Speaks First

AMC and AETC have distinctly unique missions. AMC is focused on global mobility and rapid aerial refueling and AETC is focused on training, educating, and recruiting. Although each command's basic supply requirements are similar, AMC supply squadrons have a more stringent UTC tasking than those in AETC. The heavy UTC tasking directly relates to personnel that are required to deploy in support of global

mobility requirements. Therefore, with regard to outsourcing, AMC is much more limited as to what they can actually do.

Table 2. Impact on AMC Locations

BASE	Current Base Supply Military	Current Base Supply Civilian	Future Base Supply Military	Future Base Supply Civilian	UTC Tasking Military	UTC Tasking Civilian
Andrews AFB	145	33	0	0	0	0
Charleston AFB	206	15	123	13	86	0
Dover AFB	192	15	116	15	77	0
Fairchild AFB	164	14	97	14	99	0
Grand Forks AFB	165	15	104	14	97	0
MacDill AFB	134	15	69	15	78	0
McChord AFB	137	51	67	46	82	0
McConnell AFB	153	11	98	11	97	0
McGuire AFB	213	27	113	26	59	0
Pope AFB	171	19	96	16	112	0
Scott AFB	67	39	0	0	0	0
Travis AFB	247	50	148	46	88	0
Total:	**1994**	**304**	**1031**	**216**	**875**	**0**
Grand Total:	**2298**		**1247**		**875**	

Source: Briefing, HQ AMC Supply Division, subject: Supply Modernization, 19 October 1998, 11.

It is critical to note that this number is only approximately half of what the current AMC tasking really is. Table 2 illustrates the projected number of affected personnel at AMC bases before and after modernization initiatives occur. The final two columns illustrate UTC tasking originally recognized by the Air Staff when AMC was provided their JUMP START number. Currently, AMC has approximately 1,400 supply personnel filling critical UTCs.[1] This disconnect is still being reviewed and must be resolved prior to AMC committing to any further modernization initiatives. Excluding the supply functions at Scott AFB and Andrews AFB already undergoing A-76 study, approximately 73 percent of all AMC supply squadrons are tasked to fill UTCs. This number ranges from 73 percent at Grand Forks AFB, ND to 80.1 percent at Pope AFB, NC. These high percentages are evidence that there is little room for AMC to further outsource.

More importantly, with outsourcing and reengineering occurring at a comparably higher rate AF-wide, AMC cannot exercise the option of "shuffling" UTCs between their own bases, or even to other major commands. For example, AETC is planning to outsource more supply functions. Moreover, other major commands also have to meet JUMP START targets proportional to AMC's target and are also pursuing regionalization and reengineering. The flexibility for a major command to absorb UTCs from another major command is extremely limited.

Regionalization Provides Immediate Savings

This research supports AMC's position for establishing a regional center. However, according to AETC supply experts, AETC will not regionalize supply because the command will incur a two million-dollar regionalization start up cost.[2] Additionally, nearly half of the existing supply functions in AETC are already outsourced with plans to outsource more since. A regional center in AMC can produce manpower cost savings sooner; and, simultaneously improve efficiency. According to AMC, a regional center will reduce each supply account by approximately 33 positions and allow the command to directly cut 100 positions. The direct cuts will in turn put money back into modernization sooner than undergoing lengthy and labor-intensive cost comparison studies at each base.[3]

AMC's proposed regional center (see Figure 4) will centralize most of the traditional "back-shop" functions currently located at ten base supply squadrons. This equates to approximately 33 personnel at each of the ten bases (330 personnel affected). AMC plans to operate the regional center with approximately 230 personnel. Therefore, 100

manpower positions can be deleted. AMC is planning on aligning this "AMC Supply Squadron" directly under the headquarters Logistics Directorate.

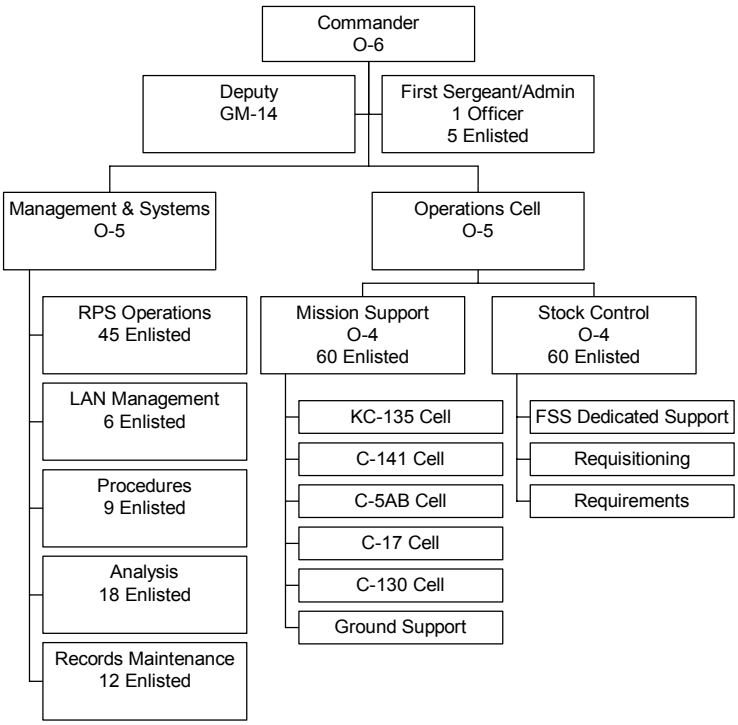

Figure 4. The AMC Supply Squadron[4]

A Dynamics Research Corporation study concluded that commands can "derive substantial savings from regionalizing" and goes on to suggest that "approximately $13M can be saved for every 10 supply accounts regionalized."[5]

AMC contends the regional center will not only save money but will also be more efficient. Consolidating these functions will reduce the logistics footprint at each base. Moreover, it will lead to increased focus on war fighting at each base and not a "behind the scenes" mentality.[6] Additionally, modern computer information technology will ensure "one stop shopping" for the command versus the current fragmented approach.[7] For example, if critical items are not adequately stocked at the base, the region can look at the "big picture", much like depots, to remedy the shortfall and to provide the

command with better support. A regional center will also incorporate critical in-line Forward Supply System computer support, currently maintained by the HQ AMC supply staff, to ensure steady airlift flow through enroute locations. Finally, AMC intends to relocate direct mission support staff functions into the regional center. These efforts will reduce the impact of future staff reductions.[8] In essence, the entire regional approach will provide critical back shop support across the command while simultaneously providing weapon system focus as opposed to today's base oriented focus.

Air Staff fully supports AMC supply regionalization efforts. According to a memorandum from Headquarters United States Air Force, Director of Supply, "the processes we are regionalizing are all required to support the warfighters but don't need to be done at each Air Force base." [9]

On the down side, the AMC staff recognizes potential pitfalls involved in consolidating back-shop functions at a regional center. For instance, consolidation can lead to less control at base level. Also, when information technology fails, consolidation at a regional center puts all the supply accounts at risk. Finally, the high percentage of an already heavy UTC tasking at each base would be increased as a result of combining functions at a central location. These concerns are, however, outweighed by the benefits.

Reengineering Processes Provides Flexibility

Both AETC and AMC are pursuing similar approaches to reengineering by eliminating processes. During this new age of the International Merchants Purchase Authorization Card (IMPAC), supply customers are allowed the flexibility to "skip the call to supply" and use the credit card to purchase supplies readily available from the private sector. This increases delivery times for customers and allows supply squadrons

to focus more attention on stocking weapons systems spares at the base level. Moreover, the Retail Sales Element Base Service Store can be replaced by organizations like the National Institute of the Blind at no expense to the Air Force.[10] These direct conversions immediately put money back into modernization.

Another area of reengineering that all major commands are pursuing is the consolidation of supply and transportation functions. For example, in AMC the Receiving Element in Base Supply and inbound freight personnel who currently work in Transportation can be combined to maximize efficiency and still meet wartime commitments. According to the former HQ USAF, Deputy Chief of Staff for Installations and Logistics, this approach has been tested at Shaw AFB (an ACC base) and is very successful.[11] This initiative can produce even more direct cuts and save money.

Outsourcing What is Feasible

As previously mentioned, AMC simply cannot outsource as extensively as AETC primarily because of mobility deployment requirements exemplified by the high number of military essential supply personnel filling a UTC. However, this does not totally eliminate outsourcing as a viable option when it makes sense.

Outsourcing functions identified in Chapter 3, Figure 2, combined with the supply functions already identified as candidates (Scott and Andrews) equates to an estimated 639 command-wide positions—over two-thirds of AMC's JUMP START target. A Supply Regionalization and Outsourcing Study suggests that "savings can be realized from outsourcing warehousing functions related to no weapon-system related stock."[12] This is exactly what AMC is doing with the exception of the Receiving and Storage and

Issue Elements--both are Materiel Storage and Distribution Flight (or Asset Management Flight) warehousing functions.

Some may present a valid argument that these two elements should be outsourced. However, outsourcing within AMC can not operate in a vacuum. For example, AMC could have easily met their JUMP START target by solely outsourcing the entire Materiel Storage and Distribution Flight at each base. However, this would eliminate the regionalization and reengineering options due to the UTC requirements. Additionally, it could negatively impact the supply career field by eliminating a core competency at ten AF installations thus leaving fewer overseas rotation options for supply personnel. This is vital to the career field, especially since AETC has already outsourced close to half of their supply accounts with plans to outsource more. Furthermore, since the Air Force decided to combine two former supply air force specialty codes into one, this option would stifle training opportunities for those personnel remaining at base level and at the regional center.

This research revealed that AMC is combining several approaches to meet QDR requirements. While the QDR recommended pursuing these approaches, a formal study conducted by Dynamic Research Corporation also supports the AMC position.

Combining Strategies is the Best Fit for AMC

The Dynamic Research Corporation concluded in their *Air Force Supply Regionalization, Outsourcing and Privatization Study* that "combining manpower reduction strategies will generate the greatest saving with the least risk."[13] In my opinion risk means two things: risk to the mission and risk to the career field.

AMC's approach is the "best fit" for AMC because it meets the QDR initiatives without degrading the command's ability to support its unique requirements. Because supply squadrons are distinct throughout the Air Force, even within AMC, their approach may not work for another command just as AETC's approach (outsourcing all supply functions) will not work in AMC. This research concurs with the following AMC positions concerning their approach:

- Sustains the functional integrity and retains UTC war fighting capability
- Reduces the number of A-76 studies through directly converting positions
- Direct conversions put money back into modernization sooner
- Evenly distributes UTC tasking across ten bases versus eight
- Integrates with QDR and Air Force strategy to outsource, regionalize, and consolidate processes[14]

Although AMC cannot outsource to the extent AETC because a combined strategy works best for them, they can still learn valuable lessons that AETC has experienced during their outsourcing efforts.

Lessons to Learn

This research revealed several lessons learned that are documented in various briefings presented by AETC. Additionally, functional area chiefs (FAC), administrative contract officers, and supply experts at AETC bases where a contractor or MEO operate supply functions were interviewed to gain insight on the lessons learned. The briefings and interview responses had several common recommendations. First, the Performance Work Statement (PWS) must be comprehensive, detailed, and easy to understand. Second, the transition period is vital after the decision is made to award a contract or to implement an MEO. Third, bases must establish working teams who are committed to the process, and must keep the lines of communication open so all parties are well informed.

According to Lt Col Eric M. Hodges in the article "*Pitfalls and Pathways in Outsourcing,* "The PWS is the heart and sole of every outsourcing initiative."[15] AETC/DLG goes on to explain that the PWS must be detailed and easily understood.[16] While comments that are too general seem to cover more areas, they can also lead to confusion by both Quality Assurance Evaluators (QAE) who are charged with evaluating the contractor performance, and, the contractor who must be aware of specific requirements. Interview respondents from several bases stated that they experienced confusion over the requirement to support Operational Plans because the PWS read "the supply squadron will" versus "the contractor will". This particular base spent an inordinate amount of time interpreting the PWS. Additionally, active host-tenant support agreements were not synchronized with the PWS leading to more confusion.[17] Although the mission was not seriously degraded, a solid easy-to-read PWS could have minimized confusion.

The transition period prior to the contract or MEO being implemented is a significant step to ensure a smooth operation. However, most bases interviewed expressed that key military personnel permanently changed stations during the transition period. This can lead those military personnel remaining behind to work extended hours performing tasks, or getting the MEO/Contractor personnel up to speed prior to implementation.[18] Consequently, training must occur during the transition to ensure new employees are capable of operating with the standard base supply system. Some of this training involves attending formal instruction courses. In many cases, MEO personnel did not have training slots in advance, and were therefore unqualified to perform assigned duties. Hiring qualified personnel is also critical. Several interviews revealed that civilian personnel

hiring practices forced the hiring of supply personnel based on long time service versus experience.[19] Additionally, QAEs and functional area chiefs were not selected in advance to prepare them for the implementation start date. This can lead to "catch up" from the very beginning and more importantly lead to untrained personnel.[20]

As with any organizational change, communication and commitment are necessary ingredients for success. A Contract Integrated Process Team Report summarizes this best with the following recommendation: build quality teams with open communication, who want to resolve problems and involve the full spectrum of all parties involved to include the contractor, QAE, FAC, and contracting officers.[21] The same holds true when developing a MEO. The civilians in the squadron should be kept well informed and the experts should be heavily involved with developing the PWS.

This research recommends that AMC is taking the right approach by modernizing through a combination of regionalization, outsourcing and reengineering. Additionally, it highlighted some valuable lessons that AETC experienced during their outsourcing efforts. Although the AETC approach may not be the "best fit" for AMC, they can certainly gain helpful insight from these lessons to minimize the problems they will encounter during their planned outsourcing efforts.

Notes

[1] Headquarters Air Mobility Command Supply Division, *Unit Manpower Document (UMD)*, 98/04.

[2] Briefing, Headquarters Air Education and Training Command (HQ AETC), subject: AETC's Approach to a "New Era" in Supply, 19 October, 1998, 7.

[3] Lt Gen John B. Sams, Jr., Air Mobility Command, Vice Commander, memorandum to HQ USAF/XP, subject: JUMP START Results-MAJCOM Review and Planning Phase, 19 March 1998.

[4] Briefing, HQ AMC Supply Division (HQAMC/LGS), subject: Supply Modernization, 19 October 1998, 6.

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[5] Dynamics Research Corporation Systems Division, *Air Force Supply Regionalization, Outsourcing, and Privatization Study,* Interim Technical Report V.3, 14 April 1997, 2.

[6] Briefing, HQ AMC/LGS, 19.

[7] Ibid.

[8] Ibid, 5.

[9] Brig Gen Leon A. Wilson, Jr., Headquarters United States Air Force, Director of Supply, memorandum to ALMAJCOM/LGS/XPM, subject: MAJCOM Regional Supply Centers, 17 October, 1997.

[10] "Supply 2000, "Where Are We Headed?", on-line, Internet, November 1998, available from http://lg.aetc.af.mil/supply/fos.htm.

[11] Lt Gen William P. Hallin, "Reengineering Air Force Logistics," *Air Force Journal of Logistics* XXII, no. 1: 2.

[12] Dynamics Research Corporation Systems Division, 2.

[13] Ibid.

[14] Briefing, HQ AMC Supply Division (HQAMC/LGS), subject: Supply Modernization, 19 October 1998, 19-21.

[15] Lt Col Eric M. Hodges, "Pitfalls and Pathways in Outsourcing," in *Sourcing the Competitive Edge Selected Readings,* ed. Lt Col Lucy K. Yarbrough et al.(Maxwell AFB, Gunter Annex, AL: Air Force Logistics Management Agency October 1998), 22.

[16] Briefing, Headquarters Air Education and Training Command, Deputy Director of Logistic (HQAETC/DLG), "Competitive Sourcing and Privatization (CS&P) Issues", to Advanced Logistics Officer Course, April 1997, 32.

[17] William C. Libby, Tyndall AFB, interviewed by author, 15 January 1999.

[18] Vaughn McNeil, Columbus AFB, interviewed by author, 14 January 1999.

[19] Norma Garland, Goodfellow AFB, interviewed by author, 11 January 1999.

[20] Libby, Interview.

[21] Briefing, Headquarters Air Education and Training Command Integrated Process Team (IPT), subject: IPT Final Report, 11 December 1996.

Chapter 7

Conclusions

As our military forces forge into the twenty-first century, logisticians must continue to pursue the most effective ways to provide optimum support. This is becoming increasingly difficult due to manpower reductions. While we would like to do "more with less", this cannot be done in today's environment. Our goal must be do things smarter by improving processes.

This research focused on the A-76 process and how two major commands, AETC and AMC, have approached supply outsourcing along with other initiatives to achieve cost savings. It explained that while the A-76 process yields cost savings, the process can be labor intensive and time-consuming. It also suggested that cost savings are reported as being overestimated.

Additionally, the "standard" base supply squadron is illustrated in the Air Force Supply Manual as a template for commands to follow; but there is room for commands to exercise flexibility by realigning the organizational structure. A review of unit manning documents supports a Dynamics Research Corporation study that there is no "standard" squadron, even within AMC.

By focusing on AMC and AETC, this research demonstrated that outsourcing is alive and well in AETC. Moreover, it provided substantial evidence that supply outsourcing in

AETC has been successful. However, AMC cannot strictly follow AETC's lead by outsourcing all supply functions due to their mission and wartime commitment.

This research supports AMC's position to establish a regional supply center. The command can consolidate functions from ten bases and save manpower by doing so. It also suggested that AMC could successfully outsource some functions while directly cutting others. Moreover, it suggested that further supply outsourcing or manpower reduction initiatives may have a negative impact on career progression.

Outsourcing makes sense and the Department of Defense should continue to pursue it where it makes sense. However, we must never lose sight of the necessity for suppliers to sustain readiness.

Appendix A

Interview Questions

1. How long have the supply and fuels functions (the former blue-suit squadron) been outsourced?
2. Is supply and fuels an MEO or Contractor organization?
3. What were the manpower savings achieved when the organization was converted from blue-suit to MEO or contractor? What is the name of the contractor?
4. What has been the cost to administer the contract for the past years; by year. How far back can you go to show comparisons of cost increases over time?
5. Have there been cost increases to contracts? Can you describe supply changes that drove the cost to go up or down?
6. Can you describe any past changes to the performance work statement that could have driven cost increases or decreases?
7. Can you describe any problems associated with the contractor/MEO meeting requirements of the PWS or SOW? What was the impact?
8. Were there any problems during the transition from blue-suit to MEO/contractor?
9. Are there any other lessons learned from AETC's outsourcing experience directly related to supply or fuels? Or, directly related to other areas?

Glossary

AETC	Air Education and Training Command
AF	Air Force
AFB	Air Force Base
AFCQMI	Air Force Center for Quality Management Innovations
AMC	Air Mobility Command
BOS	Base Operating Support
CA	Commercial Activity
CAMIS	Commercial Activities Management Information System
CONUS	Continental United States
DOD	Department of Defense
GAO	Government Accounting Office
HQ	Headquarters
MEO	Most Efficient Organization
NMCS	Not Mission Capable Supply
PWS	Performance Work Statement
QDR	Quadrennial Defense Review
SBSS	Standard Base Supply System
USAF	United States Air Force
UTC	Unit Type Code

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