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The Army Seeks a World Class Logistics Modernization Program

23 June 2004

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CENTER FOR PUBLIC POLICY AND PRIVATE ENTERPRISE

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The Army Seeks a World Class Logistics Modernization Program

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On a hot summer day in early August 1999, Paul Capelli walked from the Longworth House of Representatives office building after briefing the staffers of Representative Richard Gephardt on the Army program for which he was responsible. He was on his way to brief another House member and his staffers in the Rayburn office building. This trip felt like his 100th, and he wondered if they would ever stop. Capelli had been tasked by the Army Materiel Command (AMC) to lead a project team to modernize the Army's logistics management and information systems in the Logistics Modernization Program (LMP).[2]

In the beginning, Paul Capelli was concerned mainly with assembling the right team and developing innovative alternatives for modernization. However, he had soon realized his major resistance would come due to the unprecedented nature of the modernization, and the political resistance that resulted.

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[1] This case was a joint effort of the University of Maryland's Center for Public Policy and Private Enterprise (at the School of Public Policy) and the Naval Post Graduate School's Graduate School of Business and Public Policy. William Lucyshyn is Visiting Senior Research Scholar at the Center for Public Policy and Private Enterprise, Keith F. Snider is an Associate Professor at the Graduate School of Business and Public Policy (Naval Post Graduate School), and Robert Maly is Graduate Research Assistant at the Center for Public Policy and Private Enterprise. This case was written under the supervision of Professor Jacques S. Gansler at the University of Maryland and was supported by RADM James B. Greene, USN (Ret) Acquisition Chair at the Graduate School of Business and Public Policy (Naval Post Graduate School)

[2] Originally, LMP, or LogMod, was termed "WLMP," which referred to Wholesale LMP. Later, LMP was expanded to include retail logistics and the "W" was dropped from LMP, although the wholesale and retail operations have yet to be integrated fully as of April 2004.

INTRODUCTION

Capelli's work with LMP started two years prior in August of 1997 at the Communications-Electronics Command (CECOM), Fort Monmouth, New Jersey. CECOM's Deputy to the Commanding General Mr. Victor Ferlise called Capelli to ask him if he'd be interested in leading an important new program that would help modernize the Army's outdated logistics management systems. Capelli had served at every level within CECOM's Logistics Readiness Center (LRC) prior to being named the Program Director of LMP. And, since a core aspect of LMP was the modernization of the logistics business processes, Capelli's experience made him a logical choice.

CECOM was responding to an Army Materiel Command's (AMC's) August 5, 1997 memorandum (see Appendix A), in which AMC's Deputy Commanding General Dennis Benchoff tasked the Commander, CECOM "to explore alternatives to modernize the wholesale logistics processes and associated information technology to support these processes."[3] Specifically, the letter asked CECOM to:[4]

a. Determine feasible alternatives for logistics modernization strategies,
b. consider the implications and devise methods to soften the impact on the existing workforce,
c. develop a performance-based statement of requirements, and
d. to recommend an acquisition approach.

As the first step toward this aim, General Benchoff had asked the CECOM Commander to designate a Special Project Team in order to gather information and conduct market research to develop alternatives for a modernization strategy. The team, to be led by Capelli, would ultimately consist of top hand-picked individuals from across AMC, all of AMC's Major Subordinate Commands (MSCs), one of which is CECOM; numerous affiliated MSC depots; and other activities and centers supporting

[3] Dennis Benchoff, Memorandum to Commander of CECOM, US Army, August 5, 1997, p. 1.

[4] Ibid.

the Army's logistics enterprise. Specifically, Benchoff wanted the team to develop a plan to modernize the Army's wholesale logistics systems leveraging recent acquisition reform initiatives and best commercial business processes and products. He encouraged outside-the-box thinking and gave the team the authority to challenge all regulatory and process constraints. Benchoff envisioned a "partnering with industry" that "privatized development and sustainment of the wholesale logistics automation systems."[5]

PAUL CAPELLI

Before he became the Program Director for LMP, Capelli served in the federal government for over 20 years. He began his career in logistics at CECOM and steadily developed into one of CECOM's most talented leaders. Throughout his tenure there, Capelli had been a user of the logistics systems as well as a supervisor for divisions of other users. In fact, he had experience with virtually every aspect of CECOM's logistics processes during his career—as an intern, a materiel manager, a branch chief and a division chief.

Prior to his appointment with LMP, Capelli was the Deputy Director in CECOM's Directorate of Materiel Management, where he began seeing the changes in strategic direction the Army was making. Increasingly, the Army's strategy was integrating best practices from the commercial sector. In this capacity, Capelli began to believe that the Army's supply chain processes could benefit greatly from those in the private sector where firms were continually making their world class systems more effective and more efficient.

[5] Ibid.

SETTING THE STAGE

The US Army is supported by a vast and complex logistics network, which contains about $9 billion of Army general issue inventory and about $4 billion in spare parts; the average annual inventory turnover is about $2.5 billion.[6] It is this system that is responsible for moving supplies from manufacturers and warehouses to the soldiers on the battleground.

The first Gulf War revealed flaws in the existing Army logistics system. These weaknesses were generally not characterized by a lack of supplies, but by a lack of supplies in a timely manner, and the inability to efficiently get supplies, replacement parts and equipment to the units that needed them.[7] In fact, the Gulf War logistics operation has often been described as a classic "push" system in which the Army would literally send everything it might need into the theater first, and then issue the specific equipment as needed. This method can be effective, but it is rarely efficient. Generals coming off helicopters after the war referred to the pallets of unused equipment in the desert as "iron mountains." Recognizing a need for improvement, Department of Defense (DoD) and Army leaders began to look to the advances made in how the private sector was transforming supply chain management and began to consider ways to incorporate those into their logistics reform efforts.

In fact, the 1990's saw a large push throughout the entire federal government for best business practices. In Congress, the Government Performance and Results Act of 1993 set off a series of mandates for government performance measurements, infrastructure reductions and increased government efficiency within the federal government known as the Revolution in Business Affairs. In parallel, DoD introduced its Revolution in Military Affairs based on the idea that the US military must revolutionize

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[6] Paul Taibl, "Army Logistics Modernization Program: A Case Study," Business Executives for National Security *Tail-to-Tooth*, April 9, 1999. [Accessed on February 2004] Viewed at http://www.bens.org.

[7] Larry Asch, LMP Chief, LMP Business Office, US Army. Interviewed by William Lucyshyn, Robert Maly and Keith Snider. College Park, Maryland, January 29, 2004.

itself in order to adapt to future needs of speed and flexibility in combat. In 1994, President Clinton signed the Federal Acquisition Streamlining Act, and in 1996, he signed the Federal Acquisition Reform Act. These laws made it easier for the government to buy goods and services from the private sector through reduced government oversight, simplified contracting procedures, and generally eliminated barriers between the public and private sectors.[8]

In July 1996, the Joint Chiefs of Staff issued *Joint Vision 2010*, which proposed a vision for the US military to channel human resources and leverage technological advances to achieve higher levels of effectiveness and efficiency. It identified four main operational cornerstones—among them, *focused logistics* that were responsive, flexible and precise. The report stated: "Service and Defense agencies will work jointly and integrate with the civilian sector, where required, to take advantage of advanced business practices, commercial economies, and global networks."[9]

Two of the most influential legislative actions in the 1990s regarding acquisition reform, the Governmental Performance and Results Act (1993) and the Clinger Cohen Act (1996), stressed the importance of government performing duties that were inherently governmental. These Acts recommended that non-core competencies, those duties such as software maintenance that could be performed in the private sector, should be competitively sourced.

In May 1997, Defense Secretary William Cohen released the *Quadrennial Defense Review*which mandated the adoption of innovative business practices used in the private sector and put forward goals to reengineer DoD support structures. Secretary Cohen said, "Our purchasing system is still too cumbersome, slow and

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[8] Michael Lippitz, Sean O'Keefe and John White with John Brown, "Advancing the Revolution in Business Affairs," *Keeping the Edge: Managing Defense for the Future*, Cambridge, MA: Preventive Defense Project, September 2000, p. 170-171. [Accessed on April 2004] Viewed at http://bcsia.ksg.harvard.edu/BCSIA_content/documents/KTE_ch7.pdf..

[9] US Joint Chiefs of Staff, *Joint Vision 2010*, 1996, p. 24.

expensive. We still do too many things in-house that we can do better and cheaper through outsourcing."[10]

And yet, as of August of 1997, the Army still relied on its 30-year-old logistics and depot maintenance systems, the Commodity Command Standard System (CCSS) and the Standard Depot System (SDS), to support the Army's annual procurement of supplies and equipment worth billions of dollars. These wholesale systems, which were written in Common Business Oriented Language (COBOL) software dated from the early 1970's, were neither flexible nor adaptable to change, and were very expensive to sustain and upgrade.[11] In addition, when the Army questioned whether developing and maintaining these computer systems was a core competency, the answer came back a resounding no.

According to Paul Capelli, "While commercial logistics business processes have evolved towards replacing inventory mass with velocity management, the Army logistics system remains based upon an inventory mass concept…For the soldier, the current system is inflexible and generally unresponsive. For the Army, it is obsolete and costly to sustain. Modernization of our thirty-year-old system is an imperative."[12]

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[10] William Cohen, DoD News Release, May 5, 1997. [Accessed on April 2004] Viewed at http://www.defenselink.mil/news/May1997/b051997_bt250-97.html.

[11] Paul Capelli and John Keogh, "Wholesale Logistics Modernization Program," LMP, US Army, p. 2.

[12] Ibid.

SEIZING THE OPPORTUNITY TO MODERNIZE

In 1996, as a result of a Base Realignment and Closure (BRAC) recommendation, CECOM assumed responsibility for the two Army central design activity (CDA) logistics centers in St. Louis, Missouri, and Chambersburg, Pennsylvania. Previously under the authority of the Industrial Operations Command, the mission of these centers had been to "design, develop and maintain computer software systems and provide services that manage commodities, such as ammunition, avionics, communications and electronics, tanks, and missiles."[13]

One of CECOM's first actions at these centers was to assess the state of the logistics systems run at each location. At the time, many COBOL software experts were retiring—in fact, most would be eligible for retirement in less than two years.[14] As a result, CECOM managers were finding it difficult to train new employees in COBOL—both because there were fewer and fewer people to be the trainers and because the technology was so old, with little application in the private sector, so recruiting new employees was difficult. From their evaluation of the current systems, CCSS and SDS, both based on outmoded business processes and outdated technology, CECOM determined that addressing the outdated systems was a top priority. Larry Asch, Chief of the Business and Operations Office at LMP, said, "The systems were being held together with spaghetti links."[15]

According to CECOM, there were major weaknesses in the old AMC legacy systems:[16]

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[13] General Accounting Office, "DoD Competitive Sourcing: Plan Needed to Mitigate Risks in Army Logistics Modernization Program," October 1999, p. 5.

[14] LMP Special Project Team, "The Business Case: Wholesale Logistics Modernization Program," CECOM, US Army, February 12, 2004, p. 13.

[15] Larry Asch, LMP Chief, LMP Business Office, US Army. Interviewed by William Lucyshyn, Robert Maly and Keith Snider. College Park, Maryland, January 29, 2004.

[16] LMP Special Project Team, "The Business Case: Wholesale Logistics Modernization Program," CECOM, US Army, February 12, 2004, p. 7.

- *Lack of flexibility*: Process changes, regulatory changes, and reorganizations within and between user commands require expensive and extensive data conversions and programming changes.
- *Slow, unfocused reports*: Reporting and summarization capabilities are geared to workers. Managers and executives, with their need for easily specified, flexible, tailored, and rapid generation of reports and summaries are usually frustrated with output capabilities.
- *Difficult to use*: The system is not user friendly. The system relies on extensive use of codes to provide compact storage (a holdover from the time when computer storage was inordinately expensive). Users are required to learn codes and have extensive system knowledge. The system lacks adequate data edits and validations, as well as support functions.
- *Expensive to maintain*: The system's size and complexities make it difficult to manage and change code. Large portions are based on relatively old third-generation programming languages and flat data structures that are inflexible to change and inefficient to operate.
- *Unresponsive*: The use of batch processing precludes timely updates to data architecture, flexible data retrieval capabilities, and informed decision-making.
- *Outmoded database*: The use of outmoded database systems and architecture result in rampant data inconsistencies, data duplication, and the lack of data standardization.
- *Expensive to operate*: The system requires extensive manual intervention because of outmoded data and system architectures.
- *Lack of cost-sharing*: The Army is the only "bill payer," precluding the ability to leverage existing industry investments in modern logistics processes and IT.

Said one Army logistics consultant: "The trust in the system is not there. Because supply lines are slow and unreliable, the smart supply clerk orders twice as much as he needs, or he orders it again 30 days later, just to be sure it comes in."[17] According to Larry Asch, the existing system was characterized by the mantra: "gotta'

[17] Nancy Ferris, "Logistics Logjam," *Government Executive*, May 1, 1999. [Accessed on February 2004] Viewed at http://www.govexec.com.

hunch, buy a bunch."[18] Yet another observer said of the CCSS and SDS systems: "These old systems are literally running on patches and prayers and could collapse at any time."[19] The resultant excess inventory from these systems costs the Army millions of dollars.

Now that CECOM was able to examine the situation with a new and independent perspective, the necessity for modernization was painfully obvious. Yet, due to institutional resistance and inertia, the status quo had been sustained for years. The transition of the CDA centers from AMC's Industrial Operations Command to CECOM provided an opportunity for change and innovation. From the first days of this transition, CECOM proceeded with a proactive approach.

In the CECOM tasking letter, General Benchoff made clear that the modernization goal was an imperative, but the direction for modernization was left wide open because the solution was yet unknown. The tasking included four broad parameters. First, the letter emphasized that maximizing the logistics performance to supply the troops was AMC's core competency—software coding was not. Second, Benchoff determined that the team must seek a solution that operated within the current operating budget, that is, the existing system had to maintained as the new one was developed—all within the current operating budget, estimated at $426M for the next 10 years. He did not want to go to Congress and ask for more money to fund the modernization because he was not confident in the result, and he knew, at minimum, doing so would greatly slow down the process. Third, Benchoff believed it was important to use best commercial business processes and technology because the private sector was so far ahead of the public sector in supply chain management practices. Finally, Benchoff instructed Capelli to take care of the employees at the CDA

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[18] Larry Asch, LMP Chief, LMP Business Office, US Army. Interviewed by William Lucyshyn, Robert Maly and Keith Snider. College Park, Maryland, January 29, 2004.

[19] Paul Taibl, "Army Logistics Modernization Program: A Case Study," Business Executives for National Security *Tail-to-Tooth*, April 9, 1999. [Accessed on February 2004] Viewed at http://www.bens.org.

centers who had given many years of committed work, had done their jobs well, and who would be ultimately most affected by the modernization changes.

With these broad parameters, AMC gave Capelli's team the modernization task and essentially said, "Now go figure out how to do this."

Within a week of assuming the responsibility to direct the new logistics modernization program, Paul knew that the staffing of the special project team was his first important responsibility as the team leader. Finding themselves in uncharted territory, Paul and one of his key attorneys, Thomas Carroll, decided they needed expertise in key areas of contracting, logistics and IT. Fortunately, Paul's supervisor, Victor Ferlise, was an avid supporter of the program. Ferlise essentially told Capelli: "Get the best and the brightest people—give me specific names you need, and we'll get them."[20] Paul and Thomas made a list of their nominees, emphasizing highly knowledgeable people who were innovators and risk-takers.

Said Paul Capelli: "My initial concerns were focused around getting the right people together. Fortunately, this consideration was a core element for my management as well. We got the best and the brightest that CECOM had to offer, and then when the contract was eventually awarded, we got the best and the brightest of what the AMC community had to offer."[21]

Thomas Carroll said: "Vic Ferlise went to the Commander and said, 'We want this guy and this guy.' And of course we were asking for the best of the best, so everyone objected. But our task was such a priority that our leaders mandated the personnel choices. That's how we got the team we needed."[22]

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[20] Larry Asch, LMP Chief, LMP Business Office, US Army. Interviewed by William Lucyshyn, Robert Maly and Keith Snider. College Park, Maryland, January 29, 2004.

[21] Paul Capelli, email response to questions, May 14, 2004

[22] Thomas Carroll, LMP Attorney, US Army. Interviewed by William Lucyshyn, Robert Maly and Keith Snider. Moorestown, New Jersey, March 11, 2004.

By the Spring of 1998, Capelli had 7 new people on his team that represented some of the most experienced CECOM staff. Many team members had over 20 years experience with major contracts and complicated programs. In all, the team had over 100 years of acquisition experience.[23] With such a talented roster, AMC leadership empowered the team to freely seek modernization solutions without unnecessary oversight and restrictions. The team was required to directly coordinate with only one of their superiors, Victor Ferlise, the Deputy to the Commander of CECOM.

Once they took a closer look at the challenges facing them, for Capelli and his team, the path ahead was clear:

"It is time, once again, for the Army's wholesale logistics business systems to lay claim to the title of state of the art by adopting commercially available business processes and enabling technologies. A refinement of our systems is not enough. We can only achieve a revolution in military logistics if we first revolutionize our business affairs. The destination is known. It is a place where American industry resides; successfully forged out of competition in a global marketplace during the 80s and 90s."[24]

In order to accomplish their first task, developing feasible alternatives for logistics modernization, the team began work on a business case.

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[23] Ibid.

[24] Paul Capelli and John Keogh, "Wholesale Logistics Modernization Program," LMP, US Army, p. 1.

ALTERNATIVES: HOW TO MODERNIZE?

First, the team began to conduct market research to see where the best private sector firms were regarding supply chain processes. The team decided early in the process that free and open communication with the private sector was critical to their success. While they had their top-level goal of modernization, they did not have a template of how to achieve that goal. Said Carroll, "At every step, we were more open with industry about what we were doing, and why we were doing it than anyone has ever been in a government procurement, in my experience."[25] So, the team conducted meetings for 6-8 months with industry leaders to find out what lessons learned and best practices companies had discovered from their own modernization efforts. The team also developed a website that enabled companies and prospective service vendors to ask questions about the LMP project and enter into a dialogue with the project team.

As a result of their research and communication with industry, the team realized their modernization goal was essentially dual in nature: (1) to reengineer their business processes, and (2) to support those new processes with modern information technology.[26] With this goal and the original parameters in mind, the LMP team used the following as screening criteria for potential alternatives:[27]

- Wholesale logistics must change to meet the needs of the modern Army.
- The potential performing organization must have the expertise to perform Business Process Reengineering (BPR) and the experience to implement logistics Commercial-Off-The-Shelf (COTS) software.
- The alternatives must have an acceptable level of risk and risk mitigation strategy.

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[25] Thomas Carroll, LMP Attorney, US Army. Interviewed by William Lucyshyn, Robert Maly and Keith Snider. Moorestown, New Jersey, March 11, 2004.

[26] Ibid.

[27] LMP Special Project Team, "The Business Case: Wholesale Logistics Modernization Program," CECOM, US Army, February 12, 2004, p. 11.

- Alternatives must have the potential to meet the schedule for developing and fielding the Army Global Combat Support System (GCSS-Army is a strategy to modernize and implement an integrated logistics system that meets the requirements of the 21st century).
- Alternatives must have the potential to be executable within the existing operating budget.

Based on the screening criteria, the status quo was rejected as a viable option, which reconfirmed the commitment to bring about the needed changes. In the Business Case study, the LMP team identified three alternatives to the status quo.[28]

Alternative 1:

The CDAs perform legacy sustainment while minimizing changes to existing systems. The Government also performs wholesale logistics modernization. This in-house effort employs the current workforce to implement a modern enterprise project with COTS software. This alternative assumes that the CDAs will be reorganized, provided the skills and trained to perform industry-quality BPR. Additionally, they will acquire the skills to design and implement a system that will achieve the modernization and sustainment goals of the LMP and GCSS-Army.

Alternative 2:

The Government performs legacy sustainment; the contractor performs wholesale logistics modernization and sustainment of the modernized system. Alternative 2 relies on the private sector for modernization while the Army continues to maintain its legacy system.

[28] Ibid, 11-12.

Alternative 3:

The Contractor performs legacy sustainment services and wholesale logistics modernization services. The contractor will employ displaced Central Design Activities center workers.

Under Alternative 1, federal IT employees would be responsible for the modernization, yet the majority of these employees had neither the expertise nor the basic skills necessary for such a transformation. A 1997 General Accounting Office (GAO) report said that when federal employees attempt to undertake a software modernization such as the LMP, the result often "is characterized by a software process that is ad hoc, and occasionally even chaotic."[29] In addition to lacking the basic software and programming skills, existing federal employees lacked critical BPR knowledge and experience that was needed for the logistics modernization. On top of the performance risk that these deficiencies posed, re-training the federal employees would pose time and financial risks. The Business Case estimated the cost of Alternative 1 at $581.7M for the next 10 years, which would exceed the current operating budget by at least 30 percent; and even if the federal employees were able to reengineer the logistic process and modernize the system, the LMP team estimated a delay of at least four years (see Figure 1 for Investment/Implementation Comparison of the three Alternatives).

Under Alternative 2, perhaps the biggest risk to the LMP was the conversion from the legacy system to the modernized system. Using this alternative, there would likely be an adversarial relationship between the government employees and the contractor because as the modernization was implemented, the contractor would be increasingly displacing government employees. In fact, there was an inverse incentive for government employees to work inefficiently toward the program goals so that their employment could be extended. Furthermore, the actual conversion of data from the legacy system to the new system would be at risk. The Business Case noted:

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[29] General Accounting Office, "Defense Computers: LSSC Needs to Confront Significant Year 2000 Issues," September 1997, p. 9-10.

When the legacy system and a modernized system are separated, and their respective responsibilities for each system is separated between the government and the contractor, the risk inherent in the data migration is magnified since each organization has little expertise in the other's systems and processes.[30]

Although the estimated cost of Alternative 2 was $425.2M for a ten year period, which was below the current operating budget, the risks were such that Army officials feared the estimate could quickly balloon.

Also, under Alternative 2, there would be no provision for a "soft-landing" for the then 478 government employees at the two Central Design Activities centers in St. Louis and Chambersburg.[31] Under alternative 3, the soft-landing was an arrangement in which the winning contractor would agree to employ the government employees affected by the transition for a pre-specified period of time, offering competitive pay and benefits. Consideration of the employees at the CDA centers had been one of the original mandates for the project team. Moreover, without a soft-landing provision, Army officials feared the federal employees, who had the most expertise in sustaining the legacy system until modernization was fully implemented, would leave before the transition took place. One solution to this specific concern would be to migrate the systems in a "turn key" fashion—turning on the modernized system all at once while turning off the legacy system. However, the Joint Logistics Systems Center had tried this approach in a similar effort in 1998 with little success. The LMP team determined a phased approach, with incremental transitions between the systems, was preferred.

The project team strongly recommended Alternative 3 with a ten year program cost of $420.9. The project team determined that the biggest risk posed by Alternative 3 was the interruption of logistics services during the transition from the government to the contractor. However, since the status quo had already been rejected, this alternative appeared the least risky of the three. Essentially, the team determined the

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[30] LMP Special Project Team, "The Business Case: Wholesale Logistics Modernization Program," CECOM, US Army, February 12, 2004, p. 24.

[31] General Accounting Office, "DoD Competitive Sourcing: Plan Needed to Mitigate Risks in Army Logistics Modernization Program," October 1999, p. 7.

greatest risk was doing nothing. Private industry, with companies such as Federal Express, Chrysler and Proctor and Gamble, had proven its ability to continuously integrate new technology and reengineer business processes to enhance efficiency and effectiveness. This alternative would allow the modernization to occur under current Army funding levels, as directed, because the winning contractor would be required to provide the initial investment costs.

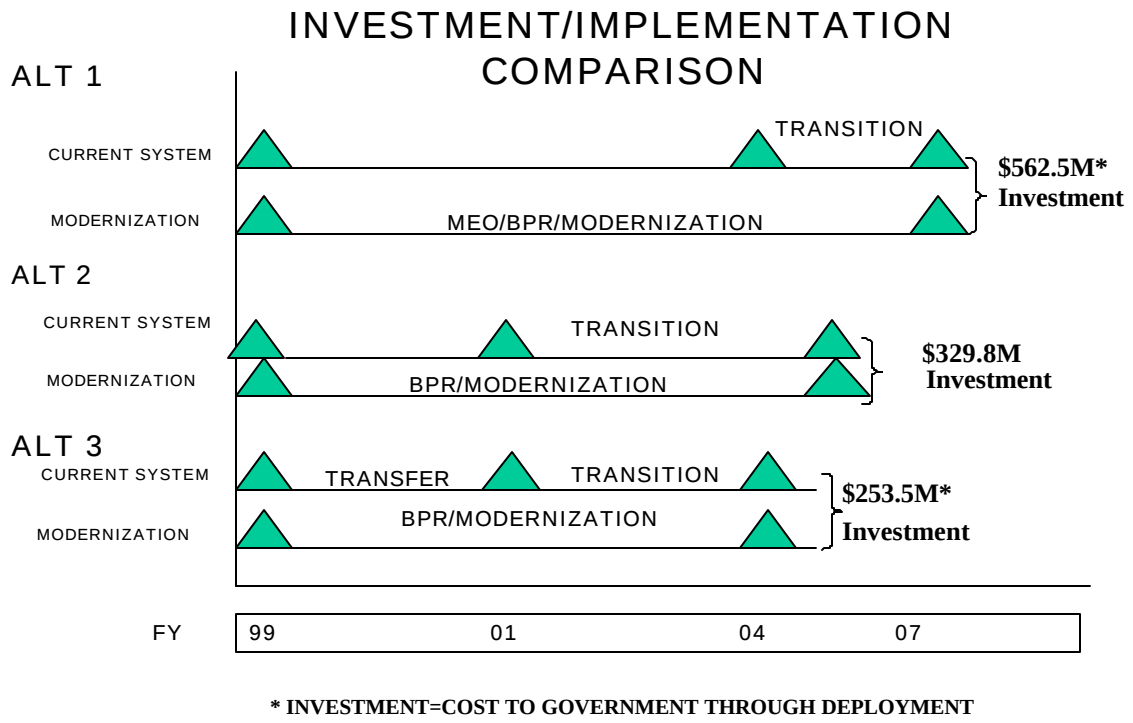

Figure 1
Source: LMP Business Case, 1999

In the end, the project team determined Alternative 3 would best satisfy LMP goals and objectives. This alternative, utilizing commercial best practices and proven experience, had the lowest estimated cost for the government (see Table 1), the lowest level of risk, and the best prospect for a timely transition. In addition, it was the only strategy that allowed for a soft-landing requirement with the contractor in the request for proposals.

	Baseline	Alternative 1	Alternative 2	Alternative 3
Current Dollars	$426.0M	$581.7M	$425.2M	$420.9M

Table 1. *Cost summary of Alternatives (10 Year program)*
Source: LMP Business Case, 1999

Said Capelli: "If you look at any of the other alternatives, the people impacts are much more severe…I personally believe that many of [the employees] will be better off [under LMP]."[32]

Under this alternative, the Army would neither own nor operate the new system. According to Victor Ferlise, "We made a fundamental switch from the procurement of systems to the acquisition of services."[33] The contractor that the Army selects would be responsible for re-engineering and modernizing the service's logistics processes using commercial best practices on a continual basis—thereby satisfying the team's two-fold goal. "We didn't want to worry about obsolescence every couple years," said Asch.[34]

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[32] Nancy Ferris, "Logistics Logjam," *Government Executive*, May 1, 1999. [Accessed on February 2004] Viewed at http://www.govexec.com.

[33] Victor Ferlise, "Innovations in Logistics Modernization," *Program Manager*, May/June 2000, p. 64.

[34] Dan Caterinicchia, "Army Logistics Marches Ahead," *Federal Computer Weekly*, November 18, 2002. [Accessed on February 2004] Viewed at http://www.fcw.com/fcw/articles/2002/1118/pol-army-11-18-02.asp.

COMPARING APPLES TO ORANGES:

OUTSOURCING OR PRIVATIZATION

Once it settled on Alternative 3, the project team considered how their modernization effort would need to use the relevant government processes for acquiring private sector services. The team believed they would need to conduct either an outsourcing or privatization effort.

All outsourcing proposals were required to comply with the Office of Management and Budget (OMB) Circular A-76 requirements; that is, to use "competitive sourcing" (i.e. competition between the public and private sector to do the work). A-76 requires all federal agencies pursuing competitive sourcing options to allow the federal employees to form a "most efficient organization" (MEO) in order to compete on equal footing with the private companies for a contract. While outsourcing is the sourcing model in which organizational activities are contracted out to vendors or suppliers who specialize in these activities in a competitive fashion.[35] However, the LMP project team believed its objectives required privatization, not outsourcing. In contrast to outsourcing, privatization is the sourcing model in which current government equipment and personnel are moved into the private sector.[36] First, the team maintained that it did not make sense to conduct a cost comparison competition under A-76 because the current CDA employees were not comparable to the BPR and IT experts in the private sector with which they would be competing. "It was like comparing apples to oranges," said Carroll.[37] Secondly, in an A-76 competition, when the government MEO loses, the employees lose their jobs completely. From their market research and the business case, the team knew the CDA employees had no chance to compete through the A-76

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[35] Jacques Gansler, *Moving Toward Market-Based Government: The Changing Role of Government as the Provider*, Center for Public Policy and Private Enterprise and the IBM Endowment for the Business of Government, June 2003, p. 10.

[36] Ibid.

[37] Thomas Carroll, LMP Attorney, US Army. Interviewed by William Lucyshyn, Robert Maly and Keith Snider. Moorestown, New Jersey, March 11, 2004.

process with the private sector because they simply did not possess the necessary expertise. Privatization was consistent with their desire for a soft-landing provision with the winning contractor. Consequently, privatization was deemed the way to go.

The team decided to work towards a strategic partnership with one contractor for a 10-year period. However, the team's research led them to decide that their first priority would be to find the best company, not necessarily the best software solution initially. They determined:

> *…no 'silver bullet' solution [was] available that satisf[ied] all the Army's anticipated needs. Rather several commercial software products provide the functionality to accomplish the wholesale logistics requirements. This research indicates clearly that the effort to develop and gain approval of the reengineered business practices as a baseline for determining an IT and organizational solution must be a priority effort.*[38]

By April 1998, the team's plans to modernize through privatization were approved through top-level management in CECOM, AMC, and the Army. However, when their proposal reached the Office of the Secretary of Defense (OSD) level and OMB, OMB told OSD and the project team that in fact LMP was an outsourcing initiative, not a privatization effort, and that they did need to conduct a competition with the government employees. OSD did not appear willing to take on that political battle, so the team was stuck with the A-76 process despite their reasoning to the contrary. According to Carroll, "At that point, we thought our efforts were finished because we knew an A-76 cost comparison was a waste of time in this circumstance."

Nonetheless, the team still had one remaining option. OMB representatives had mentioned that the Circular allowed for the application of a waiver in special circumstances. Vince Buonocore, the team's main attorney and Assistant to the Chief

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[38] LMP Special Project Team, "The Business Case: Wholesale Logistics Modernization Program," CECOM, US Army, February 12, 2004, p. 34.

Council at CECOM, found that their case for a waiver fit OMB's requirements. He also found that although waivers were permitted under A-76 guidelines, there was in fact no precedent for a waiver request.[39] Still the team pushed forward—they had nothing to lose by trying. The team officially assembled their case for a waiver, and AMC Commander General Johnnie Wilson sent an A-76 waiver package to the Assistant Secretary of the Army for Installations, Logistics and Environment in October of 1998. Wilson signed the waiver request saying, "An elongated A-76 process can take between 14 months and 24 months to complete…. If we cannot get the waiver approved, then it's really going to set us back."[40] The Assistant Secretary of the Army for Installations, Logistics and Environment—ultimately responsible for granting the initial waiver according to OMB regulations—approved LMP's waiver request. Although OMB had published the A-76 Circular, OMB did not have a direct role in the waiver process once the team submitted its request. Thus, it was essential for LMP to have the support from top-level management throughout the DoD chain of command.

In anticipation of future resistance, the original waiver package was revised in March of 1999 to include a revised business case, an economic analysis, an acquisition strategy, a logistics integration agency study, background on private sector supply chain achievements, and a risk analysis of the alternatives.[41] The memorandum in support of the request listed three main reasons for a waiver: (1) the conversion will result in significant service quality improvements, (2) the conversion will not serve to reduce significantly the level or quality of competition in the future award or performance of work, and (3) the functions to be converted are not inherently governmental.[42] However,

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[39] As of March 2004, the members of the LMP project team believe that the LMP waiver request was the first and only request of its kind for any executive agency.

[40] Gregory Slabodkin, "Army Seeks A-76 Waiver for Logistics Project," *Government Computer News*, November 23, 1998. [Accessed on February 2004] Viewed at http://www.gcn.com/archives/gcn/1998/november23/3a.htm.

[41] General Accounting Office, "DoD Competitive Sourcing: Plan Needed to Mitigate Risks in Army Logistics Modernization Program," October 1999, p. 20.

[42] LMP Special Project Team, Memorandum in Support of the Request for Cost Comparison Waiver in Connection with the Wholesale Logistics Modernization Program, US Army, p. 1.

a waiver request had in fact never been attempted because such a move was expected to bring stiff resistance from unions and Congress. Indeed, the expectations for resistance were realized.

THE BIGGEST HURDLE:

CONGRESS, UNIONS AND A SOFT-LANDING

On April 27, 1999, the Army notified Congress and the CDA employees that it had approved an A-76 waiver for the LMP project. In early May, the local union in St. Louis that represented many of the St. Louis CDA employees, the National Federation of Federal Employees (NFFE), officially filed an appeal with the Army (the Chambersburg center employees were not represented by a union). NFFE claimed the government employees should be able to compete for the contract through the traditional A-76 process. Immediately, Congressional representatives from the two areas became involved.

Representative Dick Gephardt, the House Minority Leader, was heavily connected with labor unions in Missouri and represented some of the employees at the St. Louis CDA. With Gephardt, Representatives Jim Talent and Jerry Costello, members whose districts also held the St. Louis CDA employees, demanded to know what was happening to their constituents' jobs.

Due to the number of government jobs involved, the program was highly charged politically, but it was also covering new ground. As a result, Capelli and Buonocore were required to make innumerable trips around Washington to brief and explain to many congressional committees, representatives, military departments and even other executive agencies what LMP was doing and why. According to Buonocore, whose primary role on the team was to serve as an advocate for the program, helping put together the request for the waiver and responding to interested parties in Washington:

> *The attitude in the Pentagon often was: 'Get as many fingerprints on it as possible so there is enough blame to be spread around when the political*

heat comes in.' A lot of the resistance was due to the unprecedented nature of our program. There really weren't many substantive program issues to deal with. This just wasn't the way competitive sourcing was done…and people were put off by it because it had never been tried at that time. We had to explain, explain, and explain again.[43]

Meanwhile, in March of 1999, the project team had continued to prepare its solicitation and evaluation strategy for potential contractors. Their strategy was not to ask competing companies for a business process and software solution, but to ask for an *approach* to find the solution. To facilitate this process, the team used a commercial business practice called "due diligence," a risk management tool often used prior to corporate acquisitions.[44] In their case, the LMP team defined "due diligence" as "a period of time wherein offerors shall be allowed to examine the organizations and operations associated with the WLMP. This period will allow offerors to asses the program's needs in order to mitigate proposal risks."[45] This included site visits and access to an Internet-based virtual library.

The team then focused on each company's risk assessment of the contractors' proposed approaches to finding a business process and software solution. With their responsibility to take care of CDA employees in mind, the team wanted to make the contract a win-win for both the government and the private vendor. Their Request for Proposal (RFP) required all offerors to put a minimum soft-landing requirement in the contract, stating that the contract must offer at least a one-year job guarantee to all CDA employees, at the current geographical location, with comparable pay and benefits. Additionally, one of their evaluation criteria was "What are you going to do to get a hold of the expertise you need to sustain our legacy systems—which we are going to transfer

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[43] Vince Buonocore, LMP Attorney, US Army. Interviewed by William Lucyshyn, Robert Maly and Keith Snider. Moorestown, New Jersey, March 11, 2004.

[44] For more information about LMP's use of the Due Diligence process, see: Lea Duerinck, "Use of Due Diligence in the Wholesale Logistics Modernization Program," *Program Manager*, July/August 2000.

[45] Lea Duerinck, "Use of Due Diligence in the Wholesale Logistics Modernization Program," *Program Manager*, July/August 2000, p. 61.

to you at the time of award—until modernization is complete?"[46] The team asked how each company was going to mitigate the risk of losing legacy expertise until the transition was completed knowing well that the only logical solution for the contractors to mitigate the risk was to hire the current CDA employees.

Said Carroll: "The only place the offerors could get the expertise to run the legacy systems was from the CDA employees, so the employees became valuable assets to win the contract and to achieve future performance bonuses…We were able to take this to Congress, leaders in DoD and the employees and say, 'yes, taking care of our people is a top priority.'"

In addition to the due diligence process, the team employed other methods of commercial acquisition practice that were allowed by the recent revisions to the Federal Acquisition Reform Act.[47] Most notably, the team conducted communications with the offerors prior to establishing the competitive range. The team provided each offeror Initial, Interim and Final Evaluation Reports that listed their strengths, weaknesses and deficiencies.[48] These periodic reports let the offerors know exactly where they stood throughout the evaluation process. As a result, the contractors knew what specific points in their offer to improve, and the proposals continually got better. For instance, in the end, the winning contractor offered a three-year soft-landing—two years beyond the team's minimum requirement.

As the process went along, LMP received a lot of high level interest from within DoD due to the innovative methods that were being introduced. In fact, in terms of the soft-landing, it was the first ever in DoD history.[49] LMP enjoyed the support of many key

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[46] Thomas Carroll, LMP Attorney, US Army. Interviewed by William Lucyshyn, Robert Maly and Keith Snider. Moorestown, New Jersey, March 11, 2004.

[47] The most recent section of Federal Acquisition Reform Act to be rewritten is Section 15, "Contracting by Negotiation," which was used specifically by the LMP team.

[48] Paul Capelli and John Keogh, "Wholesale Logistics Modernization Program," LMP, US Army, p. 4.

[49] Nancy Ferris, "Logistics Logjam," *Government Executive*, May 1, 1999. [Accessed on February 2004] Viewed at http://www.govexec.com.

leaders such as the Secretary of the Army, the Army Chief of Staff, and Undersecretary of Defense for Acquisition, Logistics and Technology Dr. Jacques Gansler.

> *"I really supported the Army's Logistics Modernization Program. In the end it demonstrated that with good planning you can arrive at a win-win situation…the Army acquired a state of the art, COTS based logistics management system, while the soft landing program protected the displaced employees."* Dr. Jacques S. Gansler

In addition to their trips to the Pentagon, Capelli and Buonocore estimate that they delivered about 20 briefings on the Hill. Of those trips, only two were to House member Bud Shuster who represented the Chambersburg employees. Once they explained the substantive reasoning for LMP, and explained the soft-landing provision they were requiring of the winning contractor, Rep. Shuster and his staff understood what the LMP program was trying to accomplish.

The experience was different with the St. Louis representatives because the union involvement was providing a source of greater resistance. Capelli and Buonocore made many trips to brief these representatives with the same presentation. Interestingly, after Capelli and Buonocore had explained the soft landing provision that they were requiring to the staffers of Rep. Gephardt, one of the most prominent union supporters in Congress, most of the staffers reacted positively to the plans, and repeatedly asked: "Gee, it all sounds good—so tell us again why the union doesn't like it?" Says Buonocore, "Was the local union stoking the fires in St. Louis? Yes, no question, because there weren't really many objections with the substance and reasoning for the program."[50]

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[50] Vince Buonocore, LMP Attorney, US Army. Interviewed by William Lucyshyn, Robert Maly and Keith Snider. Moorestown, New Jersey, March 11, 2004.

LMP did have lobbyists in their corner as well—among them, the Information Technology Association of America and the Professional Services Council. Ultimately, Capelli said the scales in Congress tipped in their favor because "of the sanity of what we were tasked to do. We had to modernize. It made sense to outsource. The money was right and just as importantly we had devised a plan to take care of the Government employees that were being outsourced."[51]

Capelli and Buonocore tried other mollifying measures with NFFE when things continued to stagnate. They had visited the Naval Air Warfare Center in Indianapolis where, in the face of a nationwide wave of base closures, the Navy had conducted a privatization effort to place the operation of the center under private control.[52] In this case, the Navy and the winning contractor conciliated the union representing the public employees by allowing the employees to remain unionized even after the public-to-private transition took place. They had specifically asked the local NFFE president, John Morris, whether a similar approach could work in St. Louis, but Morris ultimately responded that such a move went against NFFE's national charter, and was therefore not a possibility.

When NFFE maintained that the Army wouldn't negotiate or communicate, Capelli and the LMP team "took great pains" to keep the union informed and extended opportunities to NFFE to share any input they may have had on implementation and impact proposals.[53] Buonocore says the team never received a response from the union in this regard because the union was caught in a catch-22 situation. On one hand, the union wanted to preserve their stance that the agency wasn't negotiating. On the other hand, if the union gave any advice or proposals, they were facilitating the same process that they were trying to stop.

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[51] Paul Capelli, email response to questions, May 14, 2004

[52] Jacques Gansler, *Moving Toward Market-Based Government: The Changing Role of Government as the Provider*, Center for Public Policy and Private Enterprise and the IBM Endowment for the Business of Government, June 2003, p. 29.

[53] Vince Buonocore, LMP Attorney, US Army. Interviewed by William Lucyshyn, Robert Maly and Keith Snider. Moorestown, New Jersey, March 11, 2004.

Army Secretary Louis Caldera, responsible for the final appeal decision, rejected the union appeal and sustained the initial decision in a September 30, 1999 memorandum, stating: "The OMB Circular A-76 process is intended to apply to recurring commercial activities. The Circular is not intended to constrain federal agencies in the adoption of better business management practices or the termination of obsolete services…Accordingly, I deny all of the appeals on the wholly independent ground that the A-76 process is not applicable."[54]

[54] Brian Friel, "Army Outsourcing Plan Leads to Employee Exodus," *Government Executive*, October 18, 1999. [Accessed on March 2004]Viewed at http://www.govexec.com.

CONCLUSION

When all else had failed, in early December NFFE went to the U.S. District Court of the Eastern District of Missouri looking for a restraining order and an injunction. The correspondence from the team to the union, which clearly requested and welcomed the union's help served to repudiate the union's claim that the Army and the LMP Program were not negotiating. Also, the business case and the myriad of appeal analyses stating why the cost comparison did not make sense in LMP's case were enough to rebut the union's charge that the process for decision-making was arbitrary and unfair. The final legal appeal was unsuccessful, and on December 30, 1999, AMC awarded the Computer Sciences Corporation (CSC) with a 10-year contract—the ten year contract was required so that CSC could recoup the loss during the development phase while they were also maintaining the legacy system and operating at a loss.

Ultimately, AMC chose CSC because: (1) their performance bonus plan was more aggressive—they were willing to put a greater percentage of their revenues contingent on their performance, and the team believed this minimized the Army's risk; and (2) their soft landing plan was better for employees. CSC guaranteed every employee a three-year job guarantee in the same geographic location, comparable pay and benefits, and a $15,000 bonus with the first CSC paycheck.

Addressing the final soft-landing package extended to the CDA employees by CSC, Capelli said:

> *Throughout the entire process leading up to award, never once was the 'soft-landing' taken off the table. Everyone, from each member of my team, to Commanding Generals at all levels, to Congressmen and Senators, took this aspect of the program very seriously. All were adamant that our*

displaced employees get a fair shake for ensuring the readiness of our soldiers. We think the package extended by CSC is an excellent one.[55]

In the end, job offers were extended to all remaining 207 employees, with 205 accepting.[56] Originally, there were almost 500 total employees at both centers. Most CDA employees, however, were participants in the legacy Civil Service Retirement System, and 83% were eligible for regular or early retirement within five years of 1999.[57] Consequently, many employees chose to transfer to other federal positions or accept buyouts and early retirement packages offered by the Army.[58]

Capelli and his team were satisfied that they had successfully completed their difficult task with an innovative solution. For Capelli, the LMP would "provide a single wholesale logistics system[59] that will be capable of providing timely, flexible and cost-effective world wide distribution of assets that can sustain integrated, joint and multinational military and peacetime operations…From a logistics standpoint, the LMP is on the cutting edge of everything the Army wants to become…LMP will forward the march in the revolution in business affairs and resultant revolution in military logistics."[60]

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[55] Paul Capelli, email response to questions, May 14, 2004

[56] Computer Sciences Corporation, "Logistics Modernization Program Transition." [Accessed on April 2004] Viewed at http://www.csc.com/industries/government/casestudies/1346.shtml.

[57] General Accounting Office, "DoD Competitive Sourcing: Plan Needed to Mitigate Risks in Army Logistics Modernization Program," October 1999, p. 17.

[58] Larry Asch, LMP Chief, LMP Business Office, US Army. Interviewed by William Lucyshyn, Robert Maly and Keith Snider. College Park, Maryland, January 29, 2004.

[59] NOTE: the retail portion is under the Global Combat Support System-Army

[60] Paul Capelli and John Keogh, "Wholesale Logistics Modernization Program," LMP, US Army, p. 5.

APPENDIX A

August 5, 1997 Memorandum

AMCDCG
SUBJECT: Army Materiel Command's Wholesale Logistics Management System

(7) Offers users the opportunity to evaluate proposed solutions and provide feedback (via short feedback loop) during implementation

(8) Provides innovative solutions characterized by unconventional thinking and aggressive implementation of acquisition reform initiatives to remove potential barriers to success within compressed schedule goals

(9) Aims to accomplish the objective at or below the current funding level used to operate and maintain the legacy system (Cost as an Independent Variable)

(10) Leverages commercial logistics management processes and associated automation products to provide an initial solution that meets the essential functionality required and matures to accomplish all functionality

(11) Provides for contractor operation of legacy system until total implementation of modernized system is accomplished

(12) Exploits advances in information technology to allow continuous upgrade, technology refreshment, and provides for interoperability with associated DoD systems.

2. Organization and Membership. True partnership between CECOM, AMC and its other subordinate activities is critical to this effort. CECOM will provide overall leadership for the SPT and will coordinate appropriate representation from other agencies as the program progresses. The SPT will include membership from the AMC Business Process Managers, the AMC CIO, Lead AMC Integration Support Office (LAISO), Industrial Operations Command (IOC), US Army Security Assistance Command (USASAC), and Logistics Support Activity (LOGSA). CECOM should also consider the extent of involvement required by other DoD agencies, such as Defense Information Systems Agency (DISA), Defense Logistics Agency (DLA), Defense Finance and Accounting Service (DFAS), and Combined Arms Support Command (CASCOM).

The Wholesale Logistics Modernization Initiative is a partnership between the Army Materiel Command, its various major subordinate commands (MSCs) and activities, other DoD organizations, and industry. No funds are specifically provided to manage and develop this program. This type of acquisition requires new thinking and a creative approach to managing requirements and allocating resources. As such, each organization will provide support to develop, and administer this initiative from within current resources.

3. Authority. The SPT members are empowered to identify needs, identify and analyze modernization alternatives, develop an executable acquisition strategy, and, upon approval, execute the Wholesale Logistics Modernization Program in accordance with the mission statement. Issues which impact more than one functional area of the program will require a consensus of core SPT members. If the group cannot reach consensus or resolution by the Special Project Team Leader, the issue will be raised to the AMC Deputy Commanding General for resolution.

Since this acquisition will require a significant amount of innovation and "out of box" thinking, the team is given the authority, except for statutory requirements, to challenge all regulatory and process procedural constraints (local and departmental).

AMCDCG
SUBJECT: Army Materiel Command's Wholesale Logistics Management System

4. Not later than 30 September 1997, I want CECOM with the key players to brief me and AMC staff with greater detail addressing program scope, funding, strategy, timeline, and major concerns.

DENNIS L. BENCHOFF
Lieutenant General, USA
Deputy Commanding General

CF:
HEADQUARTERS AMC, ATTN: AMCDCG-L (Mr.Mills)
HEADQUARTERS AMC, ATTN: AMCDCG-T (Mr. Fisette)
HEADQUARTERS AMC, ATTN: AMCLG (Mr. Hunter)
US ARMY RESEARCH LABORATORY
US ARMY AVIATION AND TROOP COMMAND
US ARMY CHEMICAL AND BIOLOGICAL DEFENSE COMMAND
US ARMY INDUSTRIAL OPERATIONS COMMAND
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US ARMY INDUSTRIAL ENGINEERING ACTIVITY
US AMC INSTALLATIONS & SERVICES ACTIVITY
US AMC LOGISTIC SUPPORT ACTIVITY
US ARMY LOGISTICS SUPPORT ELEMENT
US ARMY LOGISTICS INTEGRATION ACTIVITY

DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
5001 EISENHOWER AVENUE, ALEXANDRIA, VA 22333 - 0001

REPLY TO
ATTENTION OF

S: 30 Sep 97

AMCDCG

5 August 1997

MEMORANDUM FOR Commander, US Army Communications-Electronics Command, Fort Monmouth, NJ 07703

SUBJECT: Army Materiel Command's Wholesale Logistics Management System

1. The need to upgrade our automation capabilities provides us with a unique opportunity to focus on the way we do business in the wholesale logistics arena. CECOM is tasked to lead a Special Project Team (SPT) to explore alternatives to modernize the wholesale logistics processes and associated information technology to support those processes. In exploring potential alternatives, I want the SPT focus on the following specific areas:

a. Determine the feasibility of modernization alternatives and implementation strategies for AMC's wholesale logistics processes, practices, and information technologies

b. Consider the implications and devise methods to soften the impact of the system's modernization on the current workforce

c. Develop performance-based statement of requirements that articulates the needs without restricting innovative solutions

d. Identify significant events in the timeline and conduct briefings as appropriate

e. Recommend an acquisition approach that:

(1) Identifies the best commercial business processes and associated commercially available products that support those processes to improve the logistics business processes and software tools concurrently.

(2) Privatizes development and sustainment of the wholesale logistics automation systems

(3) Facilitates reshape of the workforce to manage a privatized sustainment contract, and to achieve the optimum skill mix and a substantially lower government to contractor ratio

(4) Takes care of the people: provide for a "soft landing" for the dedicated workforce within the affected logistics systems Central Design Activities (CDAs)

(5) Implements partnering with industry to facilitate a strategic relationship with the contractor, with the potential to explore expanding the contract effort to integrate other business automation processes and databases based on successful performance

(6) Involves industry early in the development of requirements, acquisition strategy, and solicitation

APPENDIX B

Terms and Abbreviations

AMC	Army Materiel Command
BPR	Business Process Reengineering
BRAC	Base Realignment and Closure
CCSS	Commodity Command Standard System
CECOM	Communications-Electronics Command
CDA	Central Design Activity
CIO	Chief Information Officer
COTS	Commercial off-the-shelf
CSC	Computer Sciences Corporation
COBOL	Common Business Oriented Language
DoD	Department of Defense
GAO	General Accounting Office
GCSS	Global Combat Support System
IT	Information Technology
LMP	Logistics Modernization Program (or WLMP, or LOGMOD)
LOGMOD	Logistics Modernization Program (or WLMP, or LMP)
MEO	Most Efficient Organization
NFFE	National Federation of Federal Employees
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
SDS	Standard Depot System
WLMP	Wholesale Logistics Modernization Program (or LMP, or LOGMOD)

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