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billion dollar baby

The freight management contract signed late last year between the U.S. Department of Defense and Menlo Worldwide Government Services is a big deal in more ways than one.

THE LATE SEN. EVERETT DIRKSEN IS CREDITED WITH THIS UNFORGETTABLE line: "A billion here and a billion there, and pretty soon you're talking about real money."

If anyone knows just what he meant, it's the U.S. Department of Defense (DOD). Late in 2007, DOD's U.S. Transportation Command (USTRANSCOM) signed a contract with Menlo Worldwide Government Services that's worth an estimated $1.6 billion over its potential seven-year life.

The contract calls for USTRANSCOM to outsource the management of military freight moving commercially in the United States through a program called the Defense Transportation Coordination Initiative (DTCI). Implementation has already begun, with the first government site going live in March of this year.

The price tag isn't the only thing about DTCI that's a big deal. It will fundamentally change the way the U.S. military purchases transportation service. That's expected to lead to significant reductions in transportation costs as well as unprecedented opportunities for visibility and collaboration, helping the military make great strides in efficiency.

From many, one

DOD is a massive organization, with many component parts that have distinct roles, missions, and tailored business processes. No central traffic management office exists. Policy is issued from on high, but both management and execution are left to the individual services, agencies, and suppliers. As a result, freight costs and freight movements have been managed at the local or command level. DOD shippers in the continental United States independently select transportation modes, service levels, and transportation providers. Furthermore, multiple information systems are employed to execute and manage shipment activity, and there's been little in the way of collaborative visibility or coordination of movement requirements.

When transportation management is so thoroughly decentralized, there are limited opportunities to implement techniques like backhaul management and mode optimization or to adopt commercial "best practices" such as cross docking and consolidation.

Under DTCI, all that changes. By outsourcing and centralizing transportation procurement and management with a third-party logistics service provider (3PL), says Dr. John Langley of Georgia Tech's Supply Chain and Logistics Institute, DOD will make major, positive changes in defense transportation. "DTCI provides the DOD with a way to effectively manage a huge volume in a diverse environment," he notes. "It also allows the modernization and standardization of technologies and processes in the department, creating tremendous opportunities for improvement."

With the new approach, DOD expects to cut costs by as much as 20 percent while improving the speed, predictability, and reliability of transportation. At the same time, the department will gain better visibility of overall traffic patterns and performance across its supply chain.

Now, DOD is out of the loop when it comes to carrier selection. When the department wants to move something, it issues an electronic data interchange (EDI) message requesting a pickup. The EDI 219 message provides all of the shipment details: pickup window, equipment requirements, shipment characteristics, origin and destination, and delivery date. Menlo then figures out the mode and routing, confirms via an EDI 220 message within four hours, and makes the pickup within eight hours.

In essence, the department specifies the outcome it wants, and Menlo figures out how to make it happen. The freight may move using Menlo's own resources, or it may not. The company's mandate is to meet the customer's requirements in the most cost-effective way, using the right equipment for the move.

To address the critical issue of multiple information systems, Menlo selected One Network Enterprises' transportation applications as the initiative's software backbone. "One Network's next-generation transportation management suite was a principal component of our integrated solution proposal," said Andy Dyer, a vice president at Menlo Worldwide Government Services and the program manager for DTCI, in prepared remarks issued in March. "Their advanced optimization capabilities, coupled with a powerful network-based architecture, will play a fundamental role in the successful deployment of … DTCI."

Menlo is waiting to unleash the full power of the software platform. Until sometime in 2009, mode and routing decisions will be rules based, not optimization based (meaning it will adhere to pre-established criteria for matters like routing and carrier selection). Once disciplined execution is established and the baseline is known, Menlo can then move into the more sophisticated quantitative approaches embedded in today's transportation management software packages, replanning routings in real time to achieve more optimal results. Says Dyer: "This is a serious business. We want to establish the basics before we put in more complexity."

big worries for small businesses

Small businesses have voiced concerns about the potential impact of DTCI on their companies. Consolidating execution decisions with a single entity—in this case, Menlo Worldwide Government Services—they say, risks squeezing small businesses out of the market. They are so worried, in fact, that a group of 90 small businesses filed a protest when the bid was announced, but in November 2006 the Government Accounting Office (GAO) denied it.

From the beginning, DTCI has been cognizant of that risk, and small business protections were a part of the initial solicitation. DTCI requires Menlo to meet aggressive goals for participation by small businesses throughout the life of the contract: 20 percent in year one, 23 percent in year two, and 25 percent in years three through seven. The contract provides a monetary incentive for exceeding those goals.

Menlo takes this provision seriously and has hired a full-time recruiter to pursue small business participation. The 3PL also has approached transportation officers at each implementation location to identify incumbents that could be recruited for the program. Additionally, Menlo maintains a Web site where any interested small business can submit information about its capabilities for consideration. To view the site, go to www.con-way.com/en/logistics/industries_we_serve and click on the "Government" tab.

Phased rollout

Restructuring the way transportation management is handled across DOD will be a huge challenge, given the number of organizations and facilities involved, the volume of military shipments in this country, and the long history of decentralized decision-making. The dizzying assortment of commodities that move through specific facilities makes things even more complex. Red River (Texas), for instance, manages large items that meet Army vehicle requirements; Corpus Christi handles aviation needs; San Diego, fleet support; and Puget Sound, time-sensitive repair parts.

"Spiral development" is the perfect technique to apply to an implementation as complex as DTCI. Break the rollout down into phases and develop capabilities iteratively and incrementally. At the completion of each phase, you have made measurable progress toward the end objective.

The government's DTCI Program Management Office (PMO) at USTRANSCOM has applied the spiral approach and broken DTCI down into three phases. Phase I calls for the program to be rolled out to the 18 distribution centers operated by the Defense Logistics Agency, a logistics combat support agency whose primary role is to provide supplies and services to America's military forces worldwide. Phase II extends to 33 DOD locations that are in close proximity to the Phase I distribution centers. Phase III includes the remaining 16 locations. Focus was limited to locations with either a minimum of 1,000 shipments or $1 million in monthly transportation spending.

Phase I is now under way. In late March, Puget Sound was the first of the DLA distribution centers to come online, and five more switched over by the middle of August. These six sites represent a little over 25 percent of the transaction volume handled by the DLA distribution centers on a daily basis.

Today, customers from all four uniformed services are receiving products shipped under DTCI, including shipments moved via air/express, less than truckload (LTL), truckload (TL), and multimodal/rail service.

The distribution center at San Joaquin (DDJC) was the true debutante's ball for DTCI. DDJC went live on Aug. 11, 2008. That location alone accounts for almost 15 percent of the daily volume for all of the DLA's distribution centers. DDJC receives, stores, and ships supplies to military customers in the western United States, the Pacific Theater of Operations, and in some cases worldwide. San Joaquin runs what the military calls a "consolidation and containerization point," which operates much like a cross-docking, freight forwarding business. According to Col. Mike Miller, USAF, the director of the DTCI PMO, things are going "very well."

After San Joaquin, the program management office will conduct a formal program review, and assuming the program gets a green light, DTCI will add three more locations by the end of the year. The last, and biggest, will be Susquehanna, located near Harrisburg, Pa. Susquehanna is the largest facility in the DLA distribution center network, handling roughly twice the volume of San Joaquin. By year's end, just about 60 percent of the network's transactional volumes will be flowing through the DTCI program.

"Bites of the elephant"

The implementation philosophy is clear—iterate, ramp up on complexity, ramp up on scale, and build course corrections into the methodology. This program is not going to drift: As Brig. Gen. Pete Talleri, commanding general of the Defense Distribution Command, puts it, "We're taking reasoned 'bites of the elephant' and applying commercial best business practices across the network. We're growing this as a collaborative opportunity and making fixes while under way."

That approach requires some flexibility, and USTRANSCOM and Menlo are driving to mission and objectives, not schedule. Consider the example of Barstow, Calif. Barstow had been slotted as the first implementation site, but a delay in the contract award due to protests by other bidders created scheduling conflicts with other planned activities. Instead of forcing the issue, Barstow shifted to fifth place, and Puget Sound became the site of DTCI's maiden voyage.

In fact, collaboration, not command and control, comes up time and time again, whether talking to USTRANSCOM, DLA, or Menlo. The DTCI Program Management Office's implementation team says it is working in close collaboration with the Defense Distribution Command implementation team, representatives from the various military services, and Menlo to ensure that the rollout is as smooth and efficient as possible.

Everyone's aware of how critical collaboration is to the success of the project. "We're breaking a lot of stovepipes," Talleri says. "We were in the business of selecting carriers. Now it's about optimizing performance and leveraging partners. Before we did this on our own backs. Now we have the support of many."

Setbacks and successes

Even with DTCI's emphasis on collaboration and problem solving, this huge, complex initiative has encountered some bumps in the road. At this stage of implementation, that's to be expected. What's important is how the implementation team responds to each challenge and moves forward.

At Puget Sound, for instance, connectivity and EDI issues required intervention. And at San Diego, the switch at a transactional router was still pointed to the test system, causing the first transactions to be misrouted. To ensure quick resolution of any other technical glitches that might arise, it's now part of the standard implementation protocol to have an IT rep on site for the first week after a site goes live.

Some decisions have led to changes in Menlo/One Network's transportation management system (TMS). Adopting a system that sets a "window" for cargo pickup rather than a specific time or requesting an appointment drove changes to the transactions in both the shippers' systems and the TMS. Also, the contracting and auditing offices determined that the "rolled up" accessorial charges had to be detailed for audit purposes, increasing the amount of detail required for the transactions. You got it: another software change.

It hasn't been easy to deal with these glitches, and the DTCI concept as a whole requires a new way of thinking for those on the defense side. But the team has demonstrated a positive approach, supported by a spirit of openness and candor that pervades the program.

The program will benefit from that spirit, believes Menlo's Dyer. "Look, these are passionate people," he says. "Relinquishing control is hard. There is a passion for excellence, a focus on the mission that we have to respect. There's nothing that has come up that I wouldn't expect to see with any passionate customer."

Three months into the operation, it's far too early for Menlo to claim victory—the contract, with options and rewards for performance, may extend until 2014. According to the current schedule, it will take well into 2009 just to get all distribution sites on board, but so far it looks like the 3PL is getting it right.

In the first 22 weeks of operation, through the end of August, it has points on the board:

- Gross cost savings from historical baseline: 23 percent. The contract requirement is for 19.1 percent net in year three.
- Small business participation: 66 percent of all subcontracted activities (including purchased transportation) versus a contract requirement of 20 percent.
- Loss/damage-free shipments: 99.98 percent. The contract requirement is 98 percent.
- System "uptime": 99 percent. The contract requirement is 99 percent.
- On-time pickup: 93 percent, but it is trending up, with a 96-percent on-time pickup reported in August. The contract requirement is 96 percent.
- On-time delivery: 94 percent, but also trending up, with the contract requirement of 96 percent achieved in August.

With that last metric, it's important to note that on-time delivery is measured against a shipper-specified "mandatory delivery date," not a set point-to-point transit time. Menlo earns incentive fees by achieving delivery on the date the customer wants, not the date Menlo thinks it can meet.

It's a big world

DTCI has traveled a long and rocky road to get where it is today, but Menlo's success in just the first three months bodes well for the program's future. Col. Jim Lovell, the program manager for DTCI until June 2008, says, "I've seen the program through release of the solicitation, two protests, the source selection, contract award, and initial program rollout to the first four DLA Defense Distribution Centers. … I think we've really laid the foundation for a successful program."

Now that a solid foundation has been laid, where will the program go from here? The current contract only covers about one-third of DOD-procured transportation services (to be implemented across 67 sites in the first 25 months). Asked for his assessment, Gen. Talleri says, "If we get it right, there are opportunities beyond what anybody can see."

There are a lot more locations where DOD operates, and it is a big world. Stay tuned.