

# Uncle Sam's looking for a few good bids

The Defense Department is looking to outsource the management of its domestic freight—a contract that could run into the billions of dollars. The program is intended to cut costs and boost service; it could also shake up the industry.

PERHAPS IT'S NO SURPRISE THAT THE PEOPLE WHO BROUGHT US STEALTH technology have launched an all-out war on freight spending and nobody seems to have noticed. And the Department of Defense (DOD) surely is thinking big. In August of this year, DOD began reviewing proposals submitted under its Defense Transportation Coordination Initiative (DTCI)—a program through which it will outsource the management of all DOD freight moving commercially in the continental United States.

The goal of DTICI is to improve the speed, predictability and reliability of transportation while simultaneously reducing costs by as much as 20 percent. The rest of us call it third-party logistics (3PL), but hey, this is the government, which rarely misses an opportunity to make up its own acronym.

Now, DTICI is no secret ... the DOD has been working the circuit since early 2004, talking the vision and addressing concerns. It has even created a public Web site devoted to the initiative. But outside of the defense world, it hasn't generated much buzz, and it should.

We're talking billions of dollars in freight over the life of the contract. That's not a typo. Billions of freight dollars. And when you start shifting that kind of money around in a market, changes happen. Not just for the players involved, but for everybody playing in the sandbox.

## Looking for leverage

If the DOD is thinking big, it's because the opportunity is big. Today, DOD's freight movement system is decentralized. No central traffic management office exists. Freight costs and freight movement are managed at the local or command level, leaving a wide-open opportunity to improve service and reduce costs through proven techniques like pooling, backhaul management and mode optimization. Policy comes down from on high, but management and execution is left in the hands of the individual services, agencies and suppliers.

Currently, DOD shippers in the continental United States initiate freight movements using commercial freight transportation providers to myriad U.S. destinations, creating thousands of origin-destination pairs. Multiple information systems are employed to execute and manage shipment activity. There is no centralized planning, coordination or control.



Individual DOD shippers act unilaterally, independently selecting transportation mode, level of service, and transportation provider. There is limited collaborative visibility or coordination of movement requirements and therefore, there are limited opportunities to implement commercial “best practices” such as cross-docking and consolidation or using alternative modes of transportation to meet customer requirements. By implementing DTICI, DOD hopes to change all that—and in the process, cut costs, improve service and gain better visibility of overall traffic patterns and performance across the department's supply chain.

## A not-so-modest proposal

To test the plan's feasibility, the DOD in 2001 collaborated with 3PL EGL Eagle Global Logistics on a pilot project in which it outsourced the management of its freight across the southeastern United States. Encouraged by the results of the pilot, the DOD then hired GENCO, a well-known 3PL, and the non-profit firm LMI Government Consulting to put together a report on the potential benefits of outsourcing. Conservatively, the study estimated savings of 10 to 13 percent, while noting that actual savings could be higher. And, based on pooling opportunities, the study forecast improvements in both service and cycle time.

Once persuaded of outsourcing's feasibility, the DOD moved quickly. On June 22, 2006, the U.S. Transportation Command (USTRANSCOM) issued a Request for Proposal with an August deadline. The DOD's plan is to award a “long-term contract to a world-class transportation coordinator, and through this relationship

employ best commercial practices to achieve the goal of improved performance at lower total cost.” It goes on to say, “The coordinator will leverage current commercial capabilities and proven best transportation practices of commercial shippers to manage, consolidate, cross-dock and optimize specified [domestic] freight movements using contractor-chosen modes among DOD shippers.”

In all, the main body of the request for proposal ran to 168 pages, excluding supporting data, exhibits and appendices. One bidder reports that its team's proposal weighed 75 pounds. Although tempt-

ing, it would be unfair to suggest that the size is driven by the bureaucracy; the military logistics environment, even in the United States, is very complex with some unique requirements.

The successful bidder can expect a very large piece of business. According to Earl Boyanton, assistant deputy under secretary of defense for transportation policy, the DOD spends more than \$700 million annually on freight shipments. Of this, once DTICI is fully implemented, DOD anticipates that about one-third, or \$250 million, will be actively managed by the coordinator, with freight rates subjected to the competitive pressure of the open market.

## Nothing's ever easy

According to the published timeline, the award of the DTICI contract should take place before the end of calendar year 2006, with implementation (which will take place in phases) to begin early in 2007. But any government decision has political implications, and a decision of this magnitude inevitably draws attention from Congress. Recently, Congress directed the Comptroller General to conduct a study of the DTICI and to submit a report no later than Feb. 1, 2007.

Special interest groups have not been idle, either. The American Trucking Associations, for example, continues to oppose key elements of the initiative. As currently described, DTICI will empower and hold accountable the 3PL to negotiate freight rates, using incentive plans as a lever and the power of competition to drive down freight costs. ATA advocates leaving rate negotiation in the hands of the government. And, while DTICI is built to establish a business relationship directly between the 3PL and the carriers, taking the government out of the picture, ATA prefers to maintain government involvement as the ultimate decision-making authority in dispute resolution.

While the taxpayer would still benefit if the ATA succeeded in limiting the initiative's scope, many intimate with DTICI say the program's full power and benefits will be unleashed only if the 3PL is given sufficient authority to execute against the program's objectives. Let's hope the essence of DTICI survives congressional review and lobbying activities.

Delays can also be expected by the award process itself. Competitive award of federal contracts includes “protest” provisions. If anybody files a protest, alleging violation of law or some other action that runs counter to the spirit of free and open competition, the contract may not be legally awarded until the protest is reviewed, objectively considered and a decision is issued. Given the size of the contract, a protest is likely.

Between congressional interest, special interest group lobbying, and the inevitable protests, final award may not take place until the middle of 2007.

### On the offense

The military environment in the 21st century is very different from the conflicts for which the U.S. military has been trained, equipped, structured and organized over the past 50 years. During the Cold War, national security processes and policies were designed with a capability set meant to defeat large, powerful nation states with massive armies and weapons systems. Then, threats moved slowly and predictably, which allowed for static distribution network designs.

Today, the adversary is more likely to be a shadowy multinational terrorist network than a foreign government. And so, the push is on to create a nimble, high-tech fighting force, supported by an equally nimble, high-tech supply operation. However, this journey to improved combat capability must be tempered by the need to deliver against the requirements in a cost-effective fashion; DOD does not live in a world of limitless resources.

To meet this challenge, the DOD is trying to leverage contemporary best practices, the power of the commercial sector, and the latest advances in information technology. DTCI is just one part of that deliberate strategy to restructure and rationalize supply chain management capability in response to current and projected threat environments. Or, as Under Secretary of Defense (Acquisition, Technology, and Logistics) Ken Krieg likes to put it, "the DOD is pursuing a number of strategic supply chain initiatives to truly make our supply chain an offensive weapon."

Another part of that strategy is the 2005 Base Realignment and Closure (BRAC) initiative, finalized earlier this year. Under BRAC, the DOD will shut down 25 major sites and realign 24 others over the next six years. And to create a more flexible and reliable distribution network, it will increase the Defense Logistics Agency's regional distribution hubs from two to four, and shift local stock back toward the regional hubs.

A third example is at the local level, called Joint Regional Inventory and Material Management (JRIMM). It is a DOD-sponsored program designed to streamline and regionalize material handling. Drawing on lean thinking, the program seeks to minimize physical touches of material, streamline the materials management process and minimize inventory layers. Rather than maintaining functional capability at multiple locations within a command or region, JRIMM will draw common operations together and provide distribution excellence as a shared capability.

### The opportunity

The award of DTCI, the execution of BRAC and the extension of JRIMM will create very real business opportunities for private sector companies across America. As the management of DOD's freight moves into the private sector and as the department seeks to rationalize its physical network, opportunities will emerge to compete to provide any number of services under the DTCI umbrella, without the complexity, cost and political challenges normally associated with government work. Hundreds of millions of dollars of freight movements and associated distribution activities will move into the open market.

Of course, we should not overlook the potential implication of extensions of DTCI into the international arena. Already, USTRANSCOM is acknowledging the possibility of expanding DTCI, once rollout across the United States is complete. The Department of Defense is one of the largest generators of shipments from the United States to international locations, so there will be downstream multimodal opportunities as well.

President Bush has said, "The real goal is to move beyond marginal improvements to replace existing programs with new technologies and strategies ... to use this window of opportunity to skip a generation ...." DTCI is an attempt to tame a very large problem and deliver near-term benefit to both the warfighter at the tip of the spear and the taxpayer funding our national defense.

And it is an opportunity for all of us. □