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## Enhanced Competition: Shaping the Depots After Next

by

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*Competition is the driving force in the American economy. It forces organizations to improve quality, reduce costs, and focus on customer needs. Continuously spurred by these forces, American firms are now global leaders in innovation, cost performance, and technological development.*

William S. Cohen<sup>1</sup>

*Competition is the keen cutting edge of business, always shaving away at costs.*

Henry Ford II<sup>2</sup>

*Choice and competition motivate individuals and organizations to seek innovative approaches to meeting customer needs. Increasing the role of competitive forces . . . would be essential to achieving lower costs and improved service quality.*

National Defense Panel<sup>3</sup>

The military vision business is booming, and for good reason. Today we are witness to an exciting and profound transformation in which national and global institutions and cultures are swiftly moving from the Industrial to the Information Age.<sup>4</sup> In this post-Cold War era of strategic pause there is but a single dominant global power for the first time since the Roman empire,<sup>5</sup> and futurists unabashedly predict unencumbered economic growth, political stability and technological innovation for the next two decades.<sup>6</sup> No wonder the vernacular of “future-speak” is so prevalent in defense publications and interest in the military applications of dozens of emerging technologies such as robotics, sensors and hybrid power is so extensive.

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As remarkable as these new technologies are, one cannot overlook the business environment responsible for their development. The cellular telephone, facsimile machines, and the Pentium III microprocessor all benefited from innovations spawned by a surprisingly timeless concept: competition. Since the dawn of time, competition has motivated momentous change; the desire to be better, faster and more efficient than one's rivals has always been a root stimulus for improvement. Just as the forces of competition have driven mankind to the surface of the moon, demanded bigger and quicker football players, and invigorated less costly and more capable computers, so too can these pressures be applied to enhance national and military power.

One area that would benefit mightily from the advantages of competition is the defense logistics infrastructure, a huge domain that consumes over 65 percent of the entire Department of Defense (DoD) budget and compelled Secretary of Defense William Cohen to state, "DoD must no longer be held back by a burdensome infrastructure."<sup>7</sup> The logistics support base has been a major target of virtually every significant defense publication of the past several years. Embedded within documents such as the National Defense Panel (NDP) report is not only the optimism of the newly dawned information age, but also the daunting challenge of preparing for a new era in warfare within a resource-constrained climate, one that has allowed military procurement to shrink over 70 percent in eight years<sup>8</sup> to an amount equal to four months of sales by the Ford Motor Company.<sup>9</sup> Homogeneous discussion on monetary matters rarely occurs within the parochially-impaired Washington beltway, but on one point there is remarkable unity of agreement—the bloated defense logistics infrastructure must be a principal billpayer in reversing this negative investments trend.

Perhaps the most vulnerable element of the defense logistics base is the \$50 billion DoD depot system,<sup>10</sup> a collection of 89,000 government employees operating 22 major facilities and managed by all four services and a joint activity, the Defense Logistics Agency (DLA).<sup>11</sup> Large enough to rank in the top 30 companies of the Fortune 500, DoD maintenance depots annually spend about \$15 billion to execute their mission to provide maintenance support to millions of equipment items, to include 53,000 combat vehicles, 514,000 wheeled vehicles, 372 ships, and 17,300 aircraft.<sup>12</sup> To many, the DoD depot system is an inherently inefficient Cold War relic that has outlived its usefulness. In sharp contrast to recent reductions of at least 35 percent in defense budget, force structure, depot personnel, and depot maintenance support requirements, depot systems operating costs have not been significantly reduced.<sup>13,14</sup> The writing on the wall is unambiguous: Much of the future military must be funded by efficiencies derived from the depot system twenty years in the future—the Depots After Next. The purpose of this paper is to examine future depot requirements and propose a strategy for achieving significant depot infrastructure performance improvements and cost savings.

## **The Vision: Depots After Next**

Before aiming a cost-cutting scalpel at the DoD depot system, it is prudent to consider the world expected to confront military logisticians twenty years from now. There appears ample reason to be optimistic that the global information revolution will continue unabated, and the military will move towards smaller, more flexible and capable units and platforms in order to provide what *Joint Vision 2010* calls "full spectrum dominance."<sup>15</sup> Reflecting trends to move from "brute force to brain force" and "replace mass with precision,"<sup>16</sup> the future military "is the one arising from trends and decisions that reflect the technology and international security scenario of the next century."<sup>17</sup> To the layman, this means the future American military will be high-tech, high-speed and highly lethal.

Some argue that we won't need maintenance depots in such a technologically rich atmosphere. Although ultra-reliability, advanced diagnostics, prognostics and many other technological advances

may ultimately lend credence to this notion, the linkage provided by a depot system to the industrial base will clearly be required well into the next millennium. Full spectrum dominance will demand a seamless logistics system capable of projecting in hours and days (rather than months) military forces into every corner of the globe and space—and sustaining them for extended periods. Military futurists have written that “logistics is perhaps *the* important issue” of the new age in warfare<sup>18</sup> and stated “strategic logistics will, more than ever, represent a subset of national power because it includes the nation’s industrial base and its link to military forces.”<sup>19</sup> The much-maligned depot system must continue to be a vital U.S. competency. No need to call Dr. Kevorkian just yet; as long as fighting equipment can fail and supplies can wane, the need for a depot system remains vital.

So what does the future depot system look like? Platitudes and clichés abound, but a clear image of depot organization and composition has simply not yet been articulated. *Joint Vision 2010* introduced the concept of responsive, flexible and precise “focused logistics”;<sup>20</sup> and the NDP speaks of a “lighter, leaner, and more flexible defense infrastructure that ensures military readiness at reduced costs”;<sup>21</sup> and the QDR beckons logisticians to “deliver the right support at the right place on the battlefield at the right time.”<sup>22</sup> The writings of these, the Defense Science Board (DSB), the Joint Staff, the services and other prognosticators notwithstanding, the only common thread is a not-particularly-profound injunction: The Depots After Next must be much better, faster and cheaper than they are today.

The central issue regarding the future depot system concerns the correct mix of public and private involvement. Returning to the Cold War depot system designed to replicate a large industrial economy<sup>23</sup> would clearly be a step backwards, but one prominent Army official recently expressed a sentiment that is gaining momentum: “The DoD maintenance depot system is a dinosaur that deserves to be extinct; you can privatize and outsource it all and save big bucks.”<sup>24</sup> Touted as “the coming revolution,”<sup>25</sup> defense outsourcing is seen by many as a tonic for the defense budget blues by appealing to those who feel the private sector is inherently more effective than any bureaucratic government operation.<sup>26</sup> World Bank researchers found 61 privatized government operations in 18 different countries increased output by 27 percent and profits by 45 percent.<sup>27</sup> The DSB identified a plethora of performance comparisons in which private companies beat DoD production efforts, and estimated outsourcing could save the government as much as \$30 billion annually.<sup>28</sup> Privatizationists also point to successes such as the DLA’s “Prime Vendor” program, one that cut delivery times from 30 days to 24 hours, and other ongoing contractor efforts such as the Army Paladin upgrade and Air Force F-117 maintenance as further evidence of the primacy of the private sector.<sup>29</sup>

Despite the privatization and outsourcing impetus, significant cost savings have generally failed to materialize. The General Accounting Office (GAO) examined four Air Force privatization efforts and determined they cost taxpayers at least \$250 million annually.<sup>30</sup> Opponents of outsourcing argue the public sector is more responsive and accountable than private industry, and privatization merely transfers them to other forms of social protection.<sup>31</sup> Privatizing government depots is clearly not a panacea; the example of Valujet, a commercial carrier that failed to establish appropriate controls and “outsourced virtually all of their engine and airframe maintenance to third-party companies,” provides tragic evidence of this danger.<sup>32</sup>

The solution is an appropriate mix of both public and private sector involvement in the depot maintenance. But what is the right mix? First, the bad news: The answer is impossible to determine; there are simply too many variables and too many unknowns to answer this question today. Now, the good news: Approximating the right mix now is not important. If a truly competitive environment exists, then the forces of competition will drive DoD to appropriate levels of public and private involvement.

## **The Rhetoric: Doesn't Match Performance**

Fortunately, DoD is no stranger to competition. In 1996 both the GAO and the DSB reviewed over 2,000 competitions from 1978 to 1994; GAO analysis showed that the public sector won about half, and that "the savings were therefore the result of competition rather than privatization."<sup>33</sup> The DSB concluded that competitive outsourcing improves performance and provides "significant cost reductions based on extensive experience."<sup>34</sup> The recent Defense Reform Initiative report claims the government averaged saving 31 percent per competition and concluded DoD competitions increased readiness and saved \$1.5 billion annually.<sup>35</sup>

Incredibly, despite the mountains of favorable data and discourse to the contrary, competition has come to a virtual standstill in the DoD depot system. On 4 May 1994, citing issues involving excess capacity and cost accounting, the Deputy Secretary of Defense halted depot maintenance competitions.<sup>36</sup> The unfortunate truth is that only one significant public-private competition (PPC) has been conducted by DoD in the last five years.<sup>37</sup> What follows is a discussion of five specific strategic objectives that DoD must achieve in order to rectify this situation and ensure the reality of competition in our depot system is consistent with the rhetoric. As long as this strategy is unexecuted, the benefits of competition will remain unrealized and the vision of the Depots After Next will stay unrevealed.

### **Strategic Objective #1: Rectify Depot Cost Accounting**

The specific rationale provided by DoD for suspending maintenance competition in May 1994 was "financial management systems in the Department and Services are not capable of supporting determination of actual cost of specific workloads."<sup>38</sup> One can hardly imagine a more damning indictment, but little has happened in four years to invalidate it, and senior Office of the Secretary of Defense (OSD) staff analysts still claim cost accounting procedures are abysmal.<sup>39</sup> A major accounting firm concluded in 1996 that internal cost accounting and controls "at the contract and project level at the depots were found to be non-existent or very weak,"<sup>40</sup> and the NDP commented, "without good cost data, Defense managers have difficulty identifying inefficient practices and unwittingly make suboptimal resource allocation decisions."<sup>41</sup> Hopes to reduce costs obviously remain moot as long as true costs cannot be identified and tracked.

Additionally, DoD's present cost accounting discourages private firms from competing. A widely-held commercial view is that depot cost accounting is often incomplete and unfair, and industry advocates frequently claim the government fails to capture all overhead costs.<sup>42</sup> The GAO, in discussing such problems, observed "private sector sources believe there is an inherent inequity in public-private depot competition"<sup>43</sup> and noted that unless these perceptions change, private sector offerors may stop competing.<sup>44</sup>

Unquestionably, the rapid modernization and standardization of the depot cost accounting system being used by all four services and DLA must become a priority. Unfortunately, the 2 May 1997 OSD policy memorandum on PPC cost estimation and accounting does not specify such a requirement.<sup>45</sup> Upgrading the DoD depot system with an accurate and timely cost accounting system is a necessary investment that will vastly improve reporting, internal management and effective decisionmaking.

### **Strategic Objective #2: Reduce Legal Impediments**

Probably the most difficult obstacles to negotiate on the path of invigorated competition are several imposing legal hurdles. Derived from partisan efforts to protect public-sector jobs, some statutes are so detrimental that Army Deputy Chief of Staff for Logistics LTG John Coburn recently

admitted that “due to legislative constraints . . . we do not foresee the ability to execute public-private competition of Army depot maintenance workload in the near future.”<sup>46</sup>

The most egregious legal impediment is Section 2466 of Title 10, commonly referred to as the “50/50 Rule,” which allows only 50 percent of depot workload to be performed by the private sector. Although the Defense Authorization Act of 1998 seemed to move in the right direction by raising this percentage from 40 percent to 50 percent, it narrowed the definition of work that qualified for outsourcing and thereby negated the percentage increase. The 50/50 Rule still attracts the scorn of the NDP,<sup>47</sup> the QDR,<sup>48</sup> the Joint Staff,<sup>49</sup> the GAO,<sup>50</sup> and the DSB.<sup>51</sup> DoD claims private industry already executes 32 percent of the depot work,<sup>52</sup> leaving only \$1.2 billion available to be privatized or outsourced, an amount not likely to stimulate much business interest. To put this in perspective, the combined annual sales in related U.S. industrial sectors (electronics, aerospace and motor vehicles) in 1991 was over 350 times greater than this \$1.2 billion figure.<sup>53</sup> All the services would like to exceed the 50 percent limit, but these plans will remain unexecuted unless the 50/50 Rule can be repealed or significantly amended.<sup>54</sup>

Stifling competition, of course, is precisely the intent of the 50/50 Rule and the focus of the Depot Caucus, a bipartisan group of lawmakers devoted to protecting the pork barrels in their districts.<sup>55</sup> During the 1995 round of base closings, the Army wanted to shut down unneeded depots and consolidate workload, and asked to cut two of their five remaining depots. The Base Realignment and Closures Commission (BRAC) failed to support either closing, which both the GAO and the Army Audit Agency concluded left so much excess capacity that logistics leaders had no choice but to halt additional outsourcing efforts.<sup>56</sup> The Air Force actually fared even worse; the BRAC recommended two base closures, but Congress and the Depot Caucus, in a have-it-both-ways plan offered by President Clinton, forced the Air Force to “privatize-in-place.”<sup>57</sup> This meant that the unneeded maintenance facilities in Sacramento and San Antonio depots officially closed, only to reopen as commercial enterprises with the same people doing the same work in the same maintenance shops. GAO found this hopelessly flawed scheme 20 percent more costly than transferring the workload to the other depots.<sup>58</sup>

Other statutory stumbling blocks must be repealed. Section 364 of the 1998 Defense Authorization Act prohibits the Army from cutting any civilian positions at any of the five Army depots until it can certify to Congress that a new management system is fully operational. Since this system will take at least two years to stand up, Army depot rightsizing is effectively halted.<sup>59</sup> DoD and the NDP have also targeted other protectionist statutes of Title 10 that prevent contractors from competing for core maintenance (high-priority mission essential workload) and require special reviews before privatizing or outsourcing depot workload exceeding \$3 million.<sup>60</sup>

Many regard challenging Congress on these issues as futile, but DoD can do a better job of making its case that a more competitive environment is in the best interests of the nation. Political reality dictates that members of Congress will remain highly protective of the job market in their constituencies, but they can be convinced to take the longer view in the face of compelling evidence. Two years ago, Secretary of Defense William Perry and three of the four military chiefs pushed extremely hard for privatization on Capitol Hill. Their arguments fell on mostly deaf ears because the “proposed depot policy was not well thought out, in general, and was not responsive to congressional guidance on several important issues,” according to the Senate Armed Services Committee (SASC).<sup>61</sup> In other unsuccessful hearings, senior military leaders were repeatedly chided by senators for giving answers that contradicted existing DoD policy.<sup>62</sup>

DoD needs to appeal not only to congressional egalitarian ideals, but to their constituent-based principles as well. In addition to easing congressional opposition by choosing places to compete depot workload in communities where DoD doesn't dominate the local economy, DoD officials should persuade lawmakers that the negative effects of base closures are usually short-lived. Economic studies by OSD's Office of Economic Adjustment demonstrate that within two years after base closure the number of jobs usually exceeds the previous level, and most communities experience substantial improvements as soon as redevelopment plans are executed.<sup>63</sup> Lawmakers need to be convinced to think of a depot competition as an opportunity to stimulate additional business interests in their communities. Rather than a stagnant, government-only job market, base closures will bring in commercial businesses that have the potential to expand. A recent RAND study implored DoD, "If these results could be documented and presented in clear terms to the communities at risk, political opposition to outsourcing should ease" and legal impediments would be removed.<sup>64</sup>

### **Strategic Objective #3: Increase Workload Interservicing**

The opportunity for interservicing—work accomplished by one service's depot or maintenance contract on behalf of another—should be a catalyst to competition in today's resource-constrained climate. By sharing workload among the services, DoD can cut excess capacity, lower overhead costs, increase efficiency, and thus become a more capable competitor. Having already cut 43 percent of the 156,000 DoD depot system positions that existed ten years ago,<sup>65</sup> one would expect DoD to have already capitalized on the efficiencies brought forth by interservicing, but this is clearly not the case. While interservicing is such a critical issue that one of the eight chapters in OSD's FY96-FY01 Defense Depot Maintenance Council Business Plan is devoted to it, interserviced workload percentages have not significantly changed.<sup>66</sup> A Fiscal Year 1994 OSD study complained of "a reluctance on the part of services to participate in large-scale interservicing"<sup>67</sup> and estimated the actual percentage was as low as 3 percent.<sup>68</sup>

Resistance to interservicing is symptomatic of what Paul Bracken lamented when he wrote that the United States has "a defense macrostructure that resists change and is overly departmentalized with each service maintaining independent support, depot . . . and logistics centers."<sup>69</sup> The land, sea and air services each have unique platforms and there is plainly a limit to the amount of feasible interservicing, e.g., Navy ship repair facilities can't repair Army tanks or Air Force fighters. However, there is considerably more overlap than most are willing to admit. An FY92 study sponsored by the Chairman of the Joint Chiefs of Staff (CJCS) found "a significant amount of similarity and commonality, particularly at the engine and component level, make interservicing many times greater than the current 3 percent."<sup>70</sup> James Courter, BRAC Commission Chairman, objected to interservice foot-dragging and complained, "There's nobody there to restrain the military leadership from doing what they think best for their own service. . . . There was no cross-service analysis. They'll never get together until they're forced to."<sup>71</sup>

DoD needs to commence a concerted effort to greatly expand interservicing, as the work-gaining depot benefits from greater economies of scale and the work-losing depot enjoys lowered overhead and capital investment requirements. Critics may argue that larger maintenance depots will provide less responsive support to warfighters, but with effective cross-service management, warriors in all services will get better products faster from more efficient production lines.

A means of promulgating interservicing was contained in a recommendation made by the CJCS's 1992 Depot Maintenance Consolidation Study. The senior retired flag officers who led this study recommended the "establishment of a unified command for depot maintenance with full

authority to organize current Service depots,"<sup>72</sup> an idea echoed by the NDP when they recommended a Joint Logistics Command.<sup>73</sup> This concept is completely in consonance with present emphasis on "jointness," interoperability and the tenets of Focused Logistics.<sup>74</sup> Although a distinctly complex issue, the creation of a Joint Depot Maintenance Command would enable DoD to seize the initiative on interservicing and reduce service redundancies.

#### **Strategic Objective #4: Rightsize Depot Core Capability**

Hundreds of years ago, Sun Tzu wrote, "When he prepares everywhere he will be weak everywhere,"<sup>75</sup> an axiom that addresses the importance of getting the depot system to concentrate on truly vital missions and to "right size." DoD defines core capability as "the capability maintained within organic Defense depots to meet readiness and sustainability requirements of the weapon systems that support the JCS contingency scenario(s),"<sup>76</sup> but core capability is best thought of as a skill so important it cannot be outsourced.<sup>77</sup> By focusing on making the depot system capable of executing only the most critical maintenance tasks, DoD will not fall victim to the Sun Tzu admonition above and become distracted by superfluous missions.

Probably the best analogy regarding the criticality of core maintenance is voiced by MG James Monroe, commander of the Army's Industrial Operations Command, who calls depot core capability "an insurance policy that has a premium."<sup>78</sup> Retaining government control over core capability, like a good insurance policy, ensures maintenance expertise and critical equipment is available when needed, provided the premium is paid. MG (Retired) Paul Greenberg of the National Defense Industrial Association recently commented, "A lot of folks in peacetime say 'Let's save bucks,' but many of these same folks are the first in war to holler 'I want it now!'"<sup>79</sup> The private sector in a time of crisis is under no obligation to perform unanticipated missions; contractor responses of "sorry, but that's not in the contract" or "the stockholders won't let us do that" are not acceptable during a national emergency. Government operations don't go out of business, don't go on strike, and don't stop production when the product become old and unprofitable; rather, highly skilled and flexible government workforces and facilities allow maintenance depots to escalate to a heightened level of support during national crises.

The Gulf War brought both public and private sector surge capabilities to light. While most contractors generally performed well, one major private business withdrew its personnel from the theater when faced with the threat of Iraqi Scud attacks, and owners of Civil Reserve Air Fleet (CRAF) aircraft lobbied to discourage DoD from asking for commercial air assets despite having been subsidized for years so as to provide this capability during a national crisis.<sup>80</sup> DoD depots, on the other hand, performed superbly throughout the duration of the war. Over 700 depot personnel deployed to the Gulf region and anecdotal evidence of success is vast. One oft-repeated example concerns the Marine Corps depot that designed and built a ballistic protection kit for a D-7 bulldozer in two months after it was determined commercial industry couldn't do it in less than 18.<sup>81</sup> The ability to respond quickly and decisively is a vital skill that must be retained by the public sector.

Despite the OSD commitment to government retention of this proficiency, DoD must take actions to rightsize depot core capability. A critical first step is the development of a universal definition of core capability. A 1993 OSD study complained of the confusion surrounding core capability and stated "each Service still conceptualized and quantified CORE differently to meet its own requirements."<sup>82</sup> A senior DoD official echoed this concern when he said, "The collapse of the Soviet Union has dramatically changed how people thought about core capabilities. . . . We don't yet have a new definition, and we clearly have to develop one."<sup>83</sup> More recently, MG Greenberg

commented that "OSD, the Joint Staff, and the Services have yet to come to grips with how to define and quantify depot core capability in a standard, coherent and feasible manner."<sup>84</sup>

Quantifying core depot requirements in terms of direct labor hours would be the next step. Fortunately, efforts within the Defense Depot Management Council (DDMC), OSD's depot oversight committee, and the services are ongoing. A methodology for calculating depot maintenance core requirements has been developed and circulated via electronic mail.<sup>85</sup> As comprehensive as this product appears to be, the effort needs to be legitimized by formal staffing and official publication.

Only after developing both a standard core definition and methodology can the difficult task of getting DoD depots to the right size begin. For example, if a Joint core methodology determines that automotive lead acid battery repair is not a core maintenance requirement, then the DDMC can divest the DoD maintenance depots of battery repair machinery and capital. Similarly, if a Joint core methodology yields the finding that weapon system circuit card repair is a core maintenance task, then the DDMC can lay out a plan to consolidate and invest as appropriate to enhance DoD's circuit card repair ability. This process may downsize the depot system considerably, but, regardless of how small the depot system eventually becomes, it is imperative that rightsizing be accomplished in the next few years so that our maintenance depots are as efficient and competitive as possible.

### **Strategic Objective #5: Incentivize The Private Sector**

"A substantial portion of our depot-level maintenance requirements are acquired under private sector contracts awarded using other than full and open competition (often sole source)."<sup>86</sup> So wrote the Acting Under Secretary of Defense, Acquisition and Technology, Mr. R. Noel Longuemare, testimony to the fact that the cost and quality benefits of effective competition will not be realized until DoD stimulates additional private sector participation.

Certainly one way to correct this situation is to make it easier and cheaper for commercial firms to compete. A frequent target of advocates for simplification is OMB (Office of Management and Budget) Circular A-76, the procedures that guide most PPCs. Even the Joint Staff's *Focused Logistics* document calls the A-76 bureaucratic process "cumbersome and lengthy,"<sup>87</sup> and a recent DSB report advocated revoking the circular altogether.<sup>88</sup> Making work specifications and bid administration straight-forward not only saves the labor that goes into preparation, but allows competitors greater latitude to innovate. An OSD study noted that the Navy benefited when they changed their very detailed "how-to" shipyard work specifications to those that were much less precise, instructions that emphasized the end state instead of the process.<sup>89</sup> Dr. Walter LaBerge of the Defense Systems Management College studied almost identical military and commercial equipment and concluded that excessively complex specifications generally made the military equipment less reliable, bigger, and considerably more costly to purchase and maintain, and also took longer to acquire.<sup>90</sup> Simplified bid procedures are likely to attract more participation from private firms that are new to the defense industry; it is in DoD's best interests to get bids for depot work from not only Rockwell, TRW and other defense companies, but also mainstream Fortune 500 outfits like General Motors, Microsoft and Harley-Davidson.

Another means of drawing more competitors to bid on depot maintenance workload is to package depot workload contracts in a more inventive manner. Since the private sector is motivated primarily by profit, making bids larger and more lucrative, allowing government facilities and excess capacity to be leased to lower capital investment requirements,<sup>91</sup> and using multiple-year contracts will help to encourage long-term business interest. OSD has recently expressed a renewed desire to

make workload competitions more attractive to potential bidders,<sup>92</sup> and if DoD ensures the workload is spread fairly, participation rates should improve considerably.

Government credibility with the private sector needs to improve. Many corporations fail to compete because they feel that the “deck is stacked” against them; despite the many regulations that exist to prevent conflict of interest, industry often assumes public decisionmakers instinctively favor other public facilities or large defense firms.<sup>93</sup> An effort to negate this view was recently taken by OSD when contract personnel were directed to share information regarding work requirements and opportunities equally with private and public offerors.<sup>94</sup>

DoD would do well to mimic the example of Toyota, an auto-maker that has convinced many different suppliers to compete for subcomponent repair workload. When one falters in terms of price, quality or delivery schedule, Toyota quickly shifts to another provider, a process that has led to improved service and reduced costs.<sup>95</sup> GAO determined that multiple-source bids tend to stimulate more savings than single-source bids; the greater the number of competitors, the greater the savings for the taxpayer.<sup>96</sup> Incentivizing the private sector with simplified procedures, innovative bid packaging and improved communications will ensure additional participation and, hence, increased competition for depot workload.

### **The Solution: Enhanced Competition**

The next several years will no doubt be absolutely vital to the future of the DoD maintenance depot system. Cost efficiencies to pay for future military investments must be found, and our depots are an obvious target. The present system is costly, inefficient and excessive in size. In the words of MG Monroe, “Our depots are too large. . . . In the future they need to be about 1/3 of their current size.”<sup>97</sup> Determining *if* the system should be cut is no longer debatable; the issue is *how*.

The problem of finding money to invest in our future high-tech military does not require a high-tech solution. Competition always has been and will undoubtedly continue to be key in stimulating improved performance, a fact Secretary Cohen seemed to understand when he recently wrote, “Competition brings out the best in everyone.”<sup>98</sup> The forces of competition were certainly evident when Warner-Robins Air Logistics Center beat the private sector and won the 1997 C-5 maintenance workload, an effort that saved taxpayers \$190 million.<sup>99</sup> Similarly, competition compelled Anniston Army Depot and United Defense recently to work together to rebuild M113s, and in doing so cut costs 15 percent.<sup>100</sup>

Competition works. It not only affords the government more choices and lower costs, but also more closely links DoD with the ongoing information and business renaissance, a major element of U.S. national power. Competition strengthens and toughens all participants; as both the government and the private sector strive to win contracts with lower costs and better service, both sides naturally get leaner, meaner and better, and the synergistic result benefits the taxpayer and further enriches the American technical and commercial base. The dynamism of the free market must be used by DoD to answer the demands of the NDP, the DSB, and virtually all observers of the defense community to reduce logistics infrastructure and costs. By unleashing the powers of competition, DoD can shape the Depots After Next into a public-private hybrid that performs better, faster and cheaper, and promotes American military and industrial might in the process.

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