

# Supply



# Chest

# Transformation

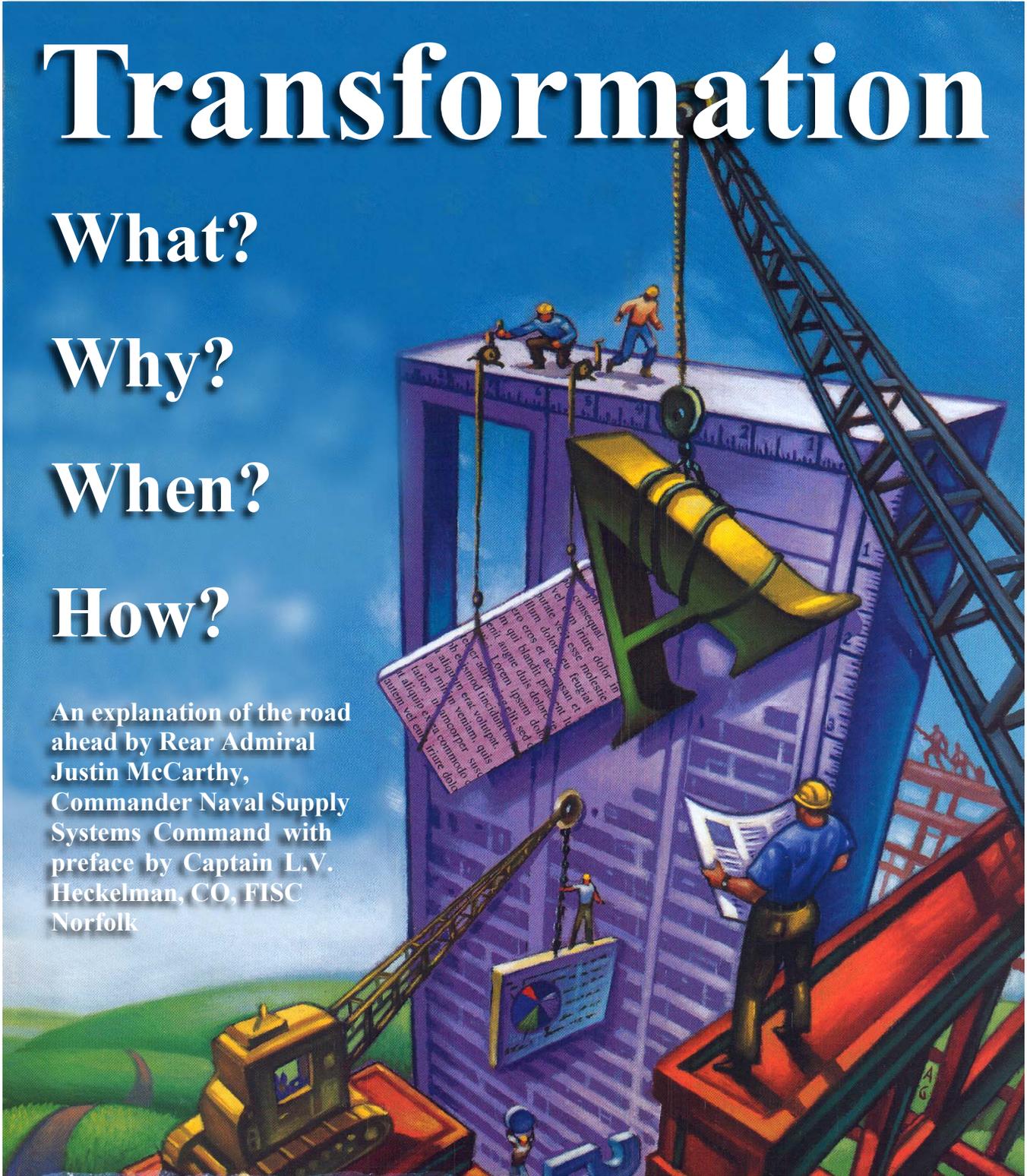
## What?

## Why?

## When?

## How?

An explanation of the road ahead by Rear Admiral Justin McCarthy, Commander Naval Supply Systems Command with preface by Captain L.V. Heckelman, CO, FISC Norfolk



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# Transformation

By Capt. L. V. Heckelman  
Commanding Officer, FISC Norfolk



This is a special edition of the *Supply Chest* to help explain what is going on within the NAVSUP claimancy with regard to transformation. I know that all of you are hearing different things about transformation and where the NAVSUP claimancy may be headed and how it will affect us as an organization. During his recent visit to FISC Norfolk, Mr. Jeff Orner, NAVSUP's Executive Director, explained the need for transformation and what NAVSUP was doing to examine the opportunities for transformation. First and foremost, let me say that as I write this column, no decisions have been made other than the fact that we must transform ourselves to keep pace with the changing requirements placed on our supply system and continue the logistics support and services that all of us together, as part of the NAVSUP enterprise, provide to

our customers. Several study teams were formed in August and they have been working hard to collect data and formulate recommendations which will all be reported out at a NAVSUP Corporate Board meeting to be held here in Virginia Beach the week of 28 October. This edition of the Supply Chest is intended to tell you a little more about what is driving the transformation initiative, the role that NAVSUP will play in that transformation and how NAVSUP is going about examining the opportunities and developing the strategies for transformation.

If you have read anything about what the Chief of Naval Operations has been saying about the need for transformation, you know that the Navy is short about \$10 billion per year for what we need to sustain our Navy and ensure future warfighting effectiveness. As a corporation, the Navy has focused our available money the past several years on people and current readiness of our forces, and as a result, the average age of our ships and aircraft has been growing. In order to keep pace with the available technology and to ensure that our Navy remains a combat credible force, we must now find a way to invest in our future readiness... defined as the ships and aircraft and other capital assets required to operate successfully and decisively well into the twenty-first century. The defense budget is not likely to increase substantially and therefore the money must come from

reengineering or transforming the way we currently do business in order to be more efficient and free up money from other areas. The shore infrastructure, of which we are a part, has been tasked with looking hard at its processes and structures to see where we can improve on effectiveness and efficiency... hence the NAVSUP transformation effort.

We'll know more following the Corporate Board meeting at the end of the month and as soon as the NAVSUP leadership makes and announces their decisions, we'll get that information out to everyone. In the meantime, I hope this issue of the Supply Chest helps to give you more information about what is happening and also answer some of your questions. We'll get back to you with more specifics as soon as they are available.

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# “Transformation is all about the combat capability of our Navy”



Rear Admiral Justin A. McCarthy,  
Commander, Naval Supply Systems Command

**“Our entire transformation initiative is all about the Combat capability of our Navy.”**

**W**e are engaged in a detailed study of options that have the potential to generate savings and improve the align-

ment of NAVSUP to better serve its customers. That study is still underway. However, I think it is important to understand the why ... why we need to transform and how all the pieces fit together. It is also important to understand why our major systems modernization effort, Enterprise Resource Planning or ERP, and our consolidation of computer hardware and software under the Navy and Marine Corps Internet are such key parts of this effort.

The mission of our Navy is to maintain, train and equip combat-ready naval forces capable of winning wars, deterring aggression and maintaining freedom of the seas. Our Navy plays a vital role in supporting our national defense. The events of the past year have clearly demonstrated just how critical that role is.

Since the end of the cold war, the size of our fleet has been reduced significantly from the close to 600 ship level we achieved in the mid-1980s. That downsizing recognized both the increased capability resident in our ships and the reduced threat facing our nation. The adjustments to our fleet size have been completed and the size of our fleet today is close to what the National Command Authority feels is needed to address today's threats. What is needed now is sustainment

**“We are not alone in this effort”**

of that fleet size through replacement of ships and aircraft that have reached the end of their useful life. To do that requires the additional \$10 billion annually. I cannot overemphasize the importance of generating the necessary savings to meet this \$10 billion requirement. A properly sized and ready fleet is our first priority. All else is secondary. We must reduce our costs to help generate these needed savings.

You may be saying to yourself, “We can't be the only ones expected to generate \$10 billion annually.” And we are not. Efforts are ongoing throughout the Navy to find ways in which costs can be reduced, lower priority investments can be either eliminated or deferred, and efficiencies can be gained. We at NAVSUP are working to contribute to those efforts. Our effort is being referred to as our transformation initiative.

While we work on transforming our Navy into the Navy of the future, ships are currently acting as our nation's forward deployed presence around the world and they have to remain just that. So how do we go about the business of transformation?

One important way is by leveraging technology. Three major initiatives are underway to provide us the ability to do just that. The first two are providing what I refer to as an electronic backbone that will enable us to dramatically improve our connectivity throughout the Navy. On our ships, that backbone is referred to as IT-21. Ashore it is the Navy Marine Corps Intranet or NMCI. Those two initiatives will allow us to pass information throughout the Navy much more efficiently and on a timely basis. In a sense, it's as if the entire Navy and Marine Corps were interconnected such that actions taken afloat would be immediately transmitted back to those on the shore who need that information to make decisions in support of those afloat commands.

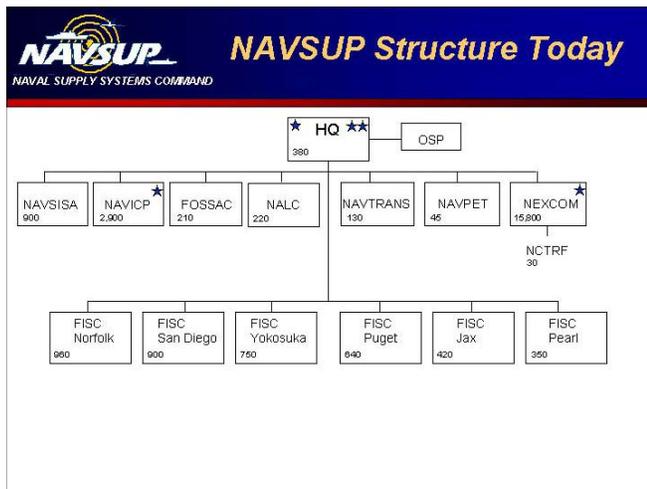
The third initiative is Enterprise Resource Planning (ERP). Once we have that electronic backbone in place, we need the systems that will allow us to use that backbone to enhance our business practices. ERP will allow us to make more informed and timely decisions and will provide the right information to the right people at the right time. Imagine that an action taken on board ship that adjusts the stock balances aboard that ship would be immediately visible to one of our inventory managers... or that a configuration change made afloat would be immediately reflected in the configuration database ashore. It's that kind of capability and the opportunity for improved processes, more timely decision making and the associated reductions in inventory and labor cost that these three initiatives are anticipated to provide.

First is our approach to this effort. We are examining all of NAVSUP from three perspectives: structurally, functionally and by customer. From a structural standpoint we are reviewing our current organization to determine if there are opportunities for streamlining. From a functional standpoint we are looking at four primary areas: inventory management, information technology, contracting and financial management. In doing so, we are determining if there are opportunities to look across all of NAVSUP and find better ways in which to leverage the total capability of our enterprise in these large functional areas. From a customer standpoint we are examining our alignment with our customers to determine if

there are clear lines of accountability linking ourselves to our seven major customer categories.

- Structural
  - Are we sized correctly?
  - Are we organized for most efficient operations?
- Functional
  - Are we aligned to leverage enterprise-wide functional capabilities?
- Customer
  - Are we aligned with our principal customer groups?
  - Do we have clear lines of accountability?

This is the way we look today. Fourteen different commands comprised of 871 military and 23,860 civilian personnel. The majority of the personnel you see on this slide belong to the Navy Exchange Command. As a non-appropriated fund activity, they generate their own funding through the sales of merchandise to our Sailors and their families, and



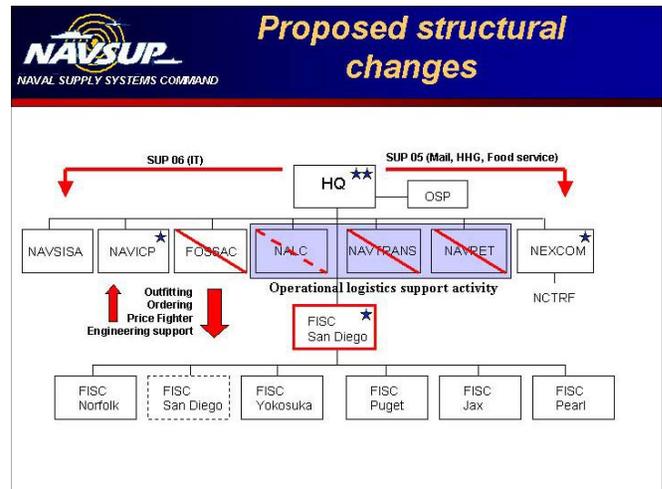
receive virtually no funding from Congress. Our focus for savings are in the remainder of NAVSUP, those funds that come from appropriated fund sources and that could be reapplied to ship and aircraft acquisition.

Recently, we spent several days reviewing a future direction for NAVSUP. Several proposals surfaced to help us generate savings. These proposals were made in the context of the three perspectives I mentioned. Let me briefly review what they are.

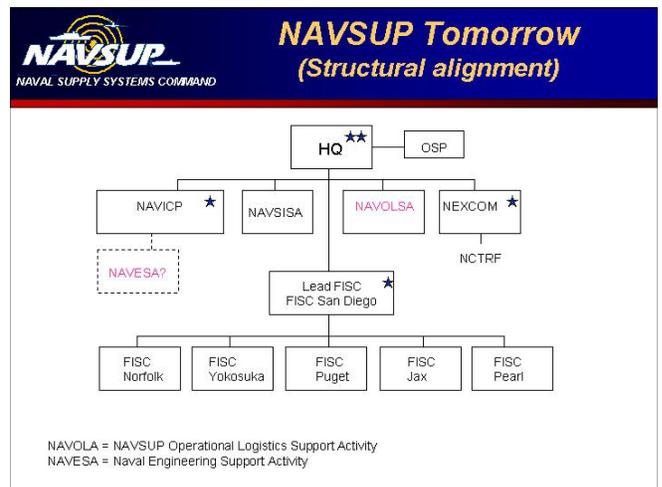
From a structural standpoint recommendations were made to downsize the headquarters staff including moving the oversight of information technology issues to NAVSISA and the coordination of Navy family support issues to the

Navy Exchange Command. Also recommended was the disestablishment of FOSSAC and the merger of their functions into other existing NAVSUP commands. Creation of a lead FISC was also recommended to facilitate common practices and efficiencies across all our FISCs. Finally, the three commands that today are NAVPET, NAVTRANS and NALC were identified for possible merger into a single command focused on providing operational logistics support to operational commanders.

Here's what our revised organization would look like if all those recommendations were implemented. I should emphasize at this point, **that no decisions have yet been**



made. That will come early in November. At the moment, these changes represent ideas that are being considered. You'll notice an activity called NAVESA on this chart. The idea



behind NAVESA is that we currently have engineering support services being performed in several commands. The recommendation is that we consider combining these services into a single command, thus providing increased opportunities for efficiencies through consolidation.

From a functional standpoint, we looked at the four areas outlined on this chart. Considering the fact these four areas

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## Functional alignment

- Inventory management (2,900 personnel)
  - National inventory management strategy
- Information technology (1,000 personnel)
  - Consolidation of support services
- Contracting (900 personnel)
  - Cross enterprise integration/coordination
  - Concentration in two primary production sites
- Financial management (400 personnel)
  - Eliminate layering, assign resources directly to responsible commanders directly

Represents approximately 60% of logistics labor force (8086 civilian/ 845 military)

Key component: harvesting labor savings!

constitute the largest segment of our workforce, they were a logical place to start. The question is, “Can we identify efficiencies by managing these functions in more of an enterprise-wide fashion.” For example, instead of having multiple layers of inventory managers, can we move to a national inventory strategy, allowing centralized management all the way to the waterfront? Instead of having information technology controlled independently at each activity, can we gain efficiencies by consolidating these resources? Instead of having multiple layers of contracting and financial management organizations, some degree of consolidation provides opportunities for efficiencies. Well, you get the idea.

From a customer alignment standpoint, we recommended improving our linkage to our major customer groups by establishing clear lines of accountability and customer advocacy. To do so, the establishment of an Assistant Chief

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## Customer alignment

- Operating Forces (OFS)
- Acquisition Community (AS)
- Industrial Community (IS)
- Regional Commanders (RCS)
- Operational Commanders (OCS)
- Navy Families (NFS)
- International Logistics (OLS)

- Connectivity weak or non-existent
- Resource control dispersed
- Accountability weak

Solution: establish clear customer advocacy

of Staff position, or ACOS, for each of these customer categories was recommended. These are not new positions. Rather they are new assignments to existing positions.

Here’s the way our organization would look under this concept. This is the same organization chart you saw earlier with the ACOS assignments highlighted in dark boxes. The

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## NAVSUP Tomorrow (Customer alignment)

NAVOLA = NAVSUP Operational Logistics Support Activity  
NAVESA = Naval Engineering Support Activity

Customer advocates/ Program support coordinators

codes in the boxes correspond to the previous chart. The assignments were made based on which command in NAVSUP would best be able to interface with the respective customer group. For example, NAVICP becomes the ACOS for industrial support, acquisition support and international logistics support. The lead FISC becomes the ACOS for regional commander support. NEXCOM becomes the advocate for Navy Family support, and so on. In each case, the ACOS would be the principle coordinator for the efforts of NAVSUP in support of their customer group (the single point of contact for customer concerns and for the generation of support improvement initiatives). They would accomplish this through the efforts of the various commands within NAVSUP.

As I mentioned earlier, the actions I've just outlined are **recommendations only** at this point. Several teams have been formed and are working to determine if these recommendations are feasible and if so, what potential savings could be generated. At the end of October, the Corporate Board will meet to review the findings of the teams and make final recommendations. Final decisions will follow. Once decisions are made and the appropriate notifications completed, a transition plan will be developed to ensure we have a solid plan to get from today’s organization to that approved for the future.

I've been asked, what is your vision of the future as you piece these various ideas together? I've tried to lay that out in these last couple of slides. I see NAVSUP better aligned to support our customers, a streamlined headquarters organization, and a centralized inventory control function that will leverage the capabilities of ERP. I also see our FISC’s acting as the “eyes and ears” of NAVSUP on the waterfront. Supporting our fleet, industrial and regional customers on their home turf and reaching back into the NAVSUP enterprise for support when needed. I see a new command focused on coordinating our support to the operational commanders forward. And finally, I see coordinated support for information technology and contracting being delivered on a more centralized basis to all of NAVSUP.

How might this look organizationally? Here's one way of thinking about it. Rather than our traditional view of the organization as having a headquarters directing the various

Today, organizations have to be structured and aligned to be responsive, nimble and continuously innovative. We must think and act transformationally while remaining Ready, Resourceful and Responsive.



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## Future vision

- Enterprise aligned for customer support
  - Responsibility/accountability established
  - Resource/program control
- Streamlined headquarters
- NAVICP controlling worldwide inventory (National inventory strategy)
  - Leveraging private sector/DLA where appropriate
  - Ensuring operating force readiness
- FISC acting as field support coordinator
  - Integrating enterprise-wide support
  - "Eyes" and "ears" of NAVSUP
- NAVOLSA coordinates support to operational commanders (forward)
- Two primary internal support activities
  - NAVSISA for IT
  - Contracting

**"We cannot become what we need to be by remaining what we are."** Max Dupree

Transformation of necessity means significant change. I know this is not easy... but we have no other choice. I am confident that working together, we can create a new vision for NAVSUP that makes the contribution to our Navy's need for cost reductions while strengthening our support to our customers. We will be working together to that end and we will keep everyone informed as we proceed. Once we complete the vision, we'll be working the transition plan. That is the point at which we will provide the specifics that I know most of you are looking for. In the meantime, bear with us a bit longer and keep up the great work you are doing keeping our Navy combat ready.

actions of the enterprise, we would look more like a network of interconnected commands. Headquarters in the center would be the communication hub and the policy arm of the organization. Outside the headquarters would lie the ACOSs. They would become the coordinating activities for support to each of the customer groups. They would, in turn, draw on the various other commands within our enterprise to deliver support to our customers. My point in this is an entirely different way of thinking about NAVSUP. Is it something no one has thought of previously?

The team and team leaders that have been tasked under the SUP Transformation Effort:

### Structural

**Captain Robert Nanney, CoS**

### Functional Teams

#### Inventory Management

Ms. Sandy Leggieri, Vice Commander, NAVICP

#### Contracting

Mr. Tom Essig, ED, OSP

#### Information Technology

Ms. Ruth Sanders, NAVSUP CIO

#### Financial Management

Mr. Mike Madden, SUP 019

### Customers

#### Industrial ACOS

Capt Dan Smoak

#### Regional ACOS

Mr. Mike Stames

#### Navy Family ACOS

Mr. Morrison/Capt Anne Dunne-Hayes

#### FMS ACOS

Capt Tom Steffen

#### Operational Logistics

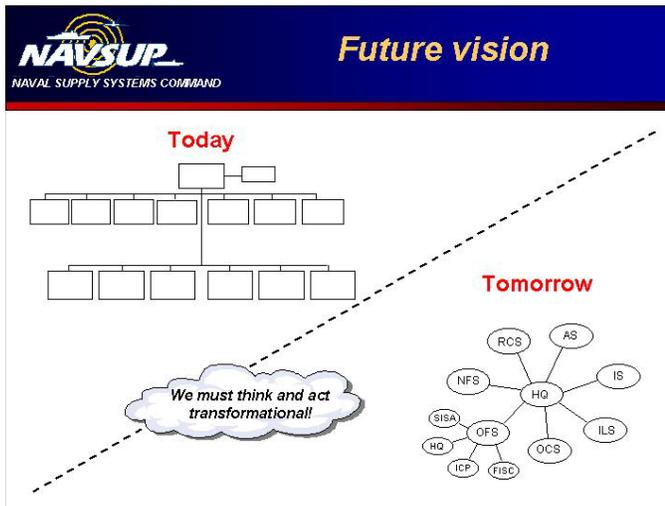
Capt Robert Schwaneke

#### Acquisition/Operating Forces ACOS

RDML Mark Hamitchek

#### SYSCOM Integration

Mr. Jeffery Orner, NAVSUP ED



Consider this quote I recently found in a leadership study done by the Ken Blanchard Companies. "We are looking at the emergence of new structures like networked organizations or even web-based organizations where there is a hub from which communication flows in every direction."