Performance Based Agreement
between
Director, Defense Logistics Agency
and
Chief of Naval Operations
and
Commander, Naval Supply Systems Command

I. INTRODUCTION

This Performance Based Agreement (PBA) establishes a framework for the coordination and alignment of resources in support of Department of the Navy logistics. It also highlights key partnering efforts that impact the collective ability of the Defense Logistics Agency (DLA) and the Naval Supply Systems Command (NAVSUP) to provide best value to the Department of the Navy customers. Marine Corps aviation, which comes under the auspices of naval aviation, is also covered by this PBA, as is Foreign Military Sales (FMS) managed by Navy.

II. DISCUSSION: This document is action oriented and is divided into four subparts:

- Transformation Initiatives
- Partnership Council
- Agenda for the Coming Year
- Metrics

A. Transformation Initiatives: The agreement is made in the context of the transformation initiatives currently being undertaken by the Department of the Navy, DLA and NAVSUP. Navy, DLA and NAVSUP transformations will be successful inasmuch as they align with and support Sea Power 21.

1) Sea Power 21. Sea Power 21 envisions the Navy/Marine Corps Team's leveraging U.S. asymmetric advantages and joint combat effectiveness to project precise, persistent offensive power from the sea (Sea Strike), extend defensive assurance throughout the world (Sea Shield), and enhance operational independence and support for the joint force (Sea Basing). These three capabilities will be enabled by integrating warriors, sensors, networks, command and control, platforms and weapons into a fully netted, combat force (Forcenet). The Global Concept of Operations will disperse combat striking power through a flexible force structure comprised of independent operational groups around the world - Carrier Strike Groups, Expeditionary Strike Groups, Missile-defense Surface Action Groups, specially modified Trident submarines, and a modern, enhanced-capability Combat Logistics Force. This structure will, as part of the joint force, deliver the combat power needed to sustain homeland defense, provide forward deterrence in four theaters, and swiftly defeat two aggressors at the same time, while positioning itself to immediately counter unexpected threats arising from any corner of the world.

Sea Strike, Sea Shield, and Sea Basing will be developed through a supporting triad of organizational processes: Sea Trial, the process of innovation; Sea Warrior, investment in personnel; and Sea Enterprise, resourcing of the future Fleet. DLA's and NAVSUP's contribution to Sea Power-21 will rest primarily on their effectiveness in support of Sea Enterprise, transforming business practices to reduce costs, moving away from legacy systems, and leveraging technology for better logistical support of the war fighter while preserving resources for recapitalization.

2) Naval Supply Systems Command Transformation Initiative. The NAVSUP Transformation Initiative involves restructuring and realigning its organization to best deliver combat capability to the war fighter through logistics. It supports the CNO's Sea Power 21 vision and is intended to result in a nimble, innovative organization that is "Ready, Resourceful and Responsive" in supporting its customers.

Transformation is a continuous process, "a journey rather than an end state," through which NAVSUP will continuously improve processes in support of the operating forces. It affects all elements of the enterprise, from the headquarters to the field activities, and includes military, civilian, reserve and contractor support personnel. Additionally, it is designed to better support customers and interface with suppliers, both of whom will benefit from improvements to structure and alignment.

3) Defense Logistics Agency Transformation Strategy. With declining budgets, especially for service-owned, retail level inventories, DLA can no longer be the large wholesaler of the past, largely insulated from the concerns and performance of the end user. DLA's "Transformation Strategy" reflects a commitment to improved support and reduced cost recovery rate, which will free up resources for the Services to use for recapitalization. DLA has committed over a billion dollars to its transformation initiatives, the success of which depends largely on how well they are aligned and coordinated with corresponding initiatives of the individual Services.

B. Partnership Council: A Partnership Council will be formed as an official and continuing forum to address prioritized Department of the Navy and DLA issues related to improving naval logistics. As the partnership develops, the Partnership Council will recommend revisions to this agreement on a continual basis, with the goal of keeping it relevant to the requirements and capabilities of the signatories. Within six months of signing this document improved plans will be developed for logistics support to the Navy, including but not limited to each of the five categories below:

1) Program Support

2) Supply Chain Management

3) In-theater/Strategic Distribution

4) Industrial Support

5) Enterprise Resource Planning

The Partnership Council will be co-chaired by NAVSUP 4B and DLA DCSO-N, and will include representatives from OPNAV N41, NAVSUP Assistant Chiefs of Staff (ACOS) and DLA who will be empowered to develop solutions and make decisions on the issues discussed. Senior leadership will be briefed accordingly.

C. Agenda: Enclosure (1) outlines the key projects of mutual interest between Navy and DLA. This Agenda is a "living document" that will be reviewed and updated on a quarterly basis by the Partnership Council. The Partnership Council will brief the signatories of this PBA on the progress of the Agenda annually at the Navy/DLA Day.

D. Performance Metrics: The initial set of performance metrics for this partnership is contained in Enclosure (2). As the Navy and DLA relationship advances and business systems evolve, goals and metrics will be refined, tracked and reported in accordance with requirements set forth by the Partnership Council. The metrics by which we judge ourselves should increasingly reflect the metrics by which the Navy customer judges success. The metrics should increasingly enable measurement of the impact of logistics on readiness. Close liaison among members of the Partnership Council in the development of these customer focused metrics is imperative.

III. TERM OF THE PBA

The term of the PBA is one year and will take effect on the date signed by the principals. It will be reviewed and amended on an annual basis.

C. W. MOORE, JR.
Vice Admiral, USN
Deputy Chief of Naval Operations, Logistics

4 SEP 03
Date signed

K. W. LIPPERT
Vice Admiral, SC, USN
Director
Defense Logistics Agency

26 AUGUST 2003
Date signed

J. D. MCCARTHY
Rear Admiral, SC, USN
Commander
Naval Supply Systems Command

26 AUG 2003
Date signed

AGENDA

Initiative	DLA POC	Navy POC	Target Due Date	Comments
Stock in Transit (SIT)	DDC	NAVSUP-NAVICP-15	30 SEP 03	Identify material management practices that contribute to SIT errors.
Improve Inventory Accuracy at DDC Sites	DDC	SUP 41	30 SEP 03	Initiate action to reduce inventory losses and resolve differences between DLA and Navy accounting. Sign Memorandum of Agreement on way ahead.
Medical Prime Vendor	DSCP	SUP 41	30 SEP 03	Develop POA&M to reduce ACWT and the surcharge for all units.
DLA Support Initiative Yokosuka, JA	DLA J37	SUP 41	30 SEP 03	Improve effectiveness. Resolve metrics issues. Evaluate and decide on way ahead.
SPRs	DSCR	NAVICP	30 SEP 03	Using F/A-18 C/D as prototype, improve forecasting procedures and metrics for use by all Navy weapons system managers.
Guam Support	DLA J37	NAVSUP	15 OCT 03	Develop plan to support PACFLT N-4 efforts to improve support for units operating out of Guam.
Hospital Ships	DCSO	OFS/MSC CLF N-4 CPF N-4	30 OCT 03	Negotiate performance based agreement to improve support for hospital ships.

NIMS Pilot NS Ingleside, TX	DLA J37	SUP 41	30 NOV 03	Implemented 31 May. MOA needs to be completed ASAP. Program Review 31 Aug. Ensure demand visibility built into blueprinting for BSM.
Strategic Distribution	DDC	NOLSC NAVICP	30 NOV 03	Develop plan to reduce ACWT in the 5th,6th and 7th Fleets. Explore positioning repairables at Sigonella, Bahrain and Guam after establishing DDs in those locations.
Weapon System Readiness Improvement	DCSO	NAVICP	1 JAN 04	Identify weapon systems and funding requirement.
Subsistence Prime Vendor	DSCP	NFS ACSO	1 JAN 04	Improve response to surge, determine way to move CFMS forward, partner with DSCP to build a streamlined core catalog.
PhysDis Transfer NAS Sigonella	DLA J37	SUP 41	30 APR 04	Transfer physical distribution to DDC. Increase range/depth.
DLA Metrics	DCSO-N	SUP 41	30 APR 04	Establish performance metrics and goals, and develop reporting capability to enable Navy to measure DLA in the following areas: -Average Wholesale Backorder Age -Navy Backorders -Subsistence Prime Vendor -Pharmaceutical Prime Vendor -Med Surgical Prime Vendor -Forecasting Buy-in (Supportability) -Awaiting Component Time -NADEP packaging backlog -Report of Discrepancy Backlog -PMRs Overdue more than 30 days

DLA Inventory Accuracy Metrics	DCSO-N/ DDC	SUP 41	30 APR 04	Establish performance metrics and goals, and develop reporting capability to enable Navy to measure DLA in the following inventory accuracy areas: -Absolute Adjustment Rate (AAR) -Gross Inventory Adjustment Rate (GIAR) -Gross Monetary Adjustment Rate (GMAR)
Navy Metrics	DCSO-N	SUP 41	30 APR 04	Establish performance metrics and goals, and develop reporting capability to enable DLA to measure Navy in the following areas: -Forecasting Buy-out (Drawdown)
Construction Material Review	DCSO-N DLA J-345	CNO N41 1NCD NAVFAC (SR)	30 NOV 03	Initiate an end-to-end review of in-theater logistics support to expeditionary construction battalions with emphasis on construction materiel.

PERFORMANCE METRICS and DEFINITIONS

TO MEASURE DLA:

CATEGORY	GOAL	FREQUENCY
Wholesale SA		
WSDC Items	85%	Monthly
Nuclear (21N)	95%	Monthly
Critical/essential (EC1)	85%	Monthly
Trident (23N)	90%	Monthly
Strategic (02N)	95%	Monthly
Wholesale Backorders		
Number of BBs (Total)	288,500	Monthly
Distribution Depots		
MRO Issue Time		
Hi-Pri	1 day avg	Monthly*
Routine	1 day avg	Monthly*
Denial Rate	0.8%	Monthly **
New Procurement Stow	1 day avg	Monthly *
MTIS Time		
-DLR (Z5S)	44 days	Monthly*
-Security (CIIC) (Z5T)	44 days	Monthly*
-EMV >$2500 (Z5U)	44 days	Monthly*
-EMV < $2500 (Z5V)	44 days	Monthly*
-Non-PMR (Z5Y)	44 days	Monthly*
Wholesale Returns	3 days	Monthly*
Unservicable Returns	3 days	Monthly*
Inventory Turbulence		
-GMAR	None established	Quarterly*
-GIAR	None established	Quarterly*
-AAR	None established	Quarterly*

Note: Inventory Turbulence Goals are under development as cited in Enclosure (1). In the interim, the trend of quarterly reports will be monitored.

CATEGORY	GOAL	FREQUENCY
Distribution Depots (cont'd)		
Inventory Accuracy		
-Category A	99%	Semi-Annual**
-Category B	95%	Semi-Annual**
-Category C	95%	Semi-Annual**
-Category D	95%	Semi-Annual**
-Controlled Items	100%	Annual**

* Navy Owned Stock
** All DoD Stock

Special Interest Items:

NIMS (by Site)		
NS Ingleside		
-Supply Response Time	8 days	Monthly
-Wholesale Delay	25 days	Monthly
-Gross Effectiveness	70%	Monthly
-Net Effectiveness	82%	Monthly
DLA Support Initiative Yokosuka		
Net Effectiveness	85%	Monthly
In stock rate	90%	Monthly

TO MEASURE NAVY:

CATEGORY	GOAL	FREQUENCY
NIMS		
Location Accuracy	98%	Quarterly
Inventory Accuracy		
UP>$1000	99%	Quarterly
Classified	100%	Quarterly
Others	95%	Quarterly
GMA	3%	Monthly

METRICS DEFINITIONS:

Absolute Adjustment Rate (AAR). MILSTRAP defined metric that measures the dollar value of adjustments (Gains + Losses + Reversals) compared to the dollar value of the NSNs inventoried. Goal: DOD Goal Pending Approval

Backorders. The number of customer requisitions not satisfied on the first pass.

Denial Rate. Reflects the number of times that the accountable record indicated assets were available to meet a customer Material Release Order (MRO) but the total quantity or condition was not physically found. The rate is determined by dividing the sum of total and partial denials (Management Codes 1 through 5) by the sum of MROs shipped and MROs totally denied.

Gross Effectiveness. The percent of total requisitions, for both carried items and non-stocked items, received and satisfied from stock on hand at the retail echelon of inventory.

Gross Inventory Adjustment Rate (GIAR). MILSTRAP defined metric that measures the dollar value of adjustments (initial adjustments minus reversals) compared to the total dollar value of all NSNs in storage. No DOD Goal Established

Gross Monetary Adjustment Rate (GMAR). MILSTRAP defined metric that measures the dollar value of adjustments (initial adjustments minus reversals) compared to the dollar value of the NSNs inventoried. No DOD Goal Established

In-stock Rate. The percent of items with a positive on hand balance at the stocking activity at any point in time.

Inventory Accuracy. The percentage of inventory records determined accurate through physical verification of quantity of assets compared to the inventory record quantity/condition code data.

- -Category A: Unit Price > or = $1000
- -Category B: Units of Issue non-definitive/difficult to measure ***OR***
  o/h balance >50 and extended value < $50K ***OR***
  NSN activity >50
- -Category C: Date of last inventory >24 months ago and o/h balance <50
- -Category D: All material not meeting criteria for Categories A, B, or C.

Inventory Turbulence. Until a comprehensive metric for inventory turbulence is developed Absolute Adjustment Rate (AAR), Gross Monetary Adjustment Rate (GMAR), and Gross Inventory Adjustment Rate (GIAR) will be used as indicators. Their definitions are listed separately.

MRO Issue Time. Measures the time from the receipt of a wholesale/retail Material Release Order (MRO) into the Distribution Standard System (DSS) until the ship date.

MTIS Time. Measures the time from the date MTIS material with Project Codes Z5S, Z5T, Z5U, Z5V, or Z5Y is received at a distribution center (tailgate date), includes post to record, and ends when the material is stowed in location.

Net Effectiveness. The percent of total requisitions received for carried items and satisfied from stock on hand at the retail echelon of inventory.

New Procurement Stow. Measures the time from the date material is received at a distribution center (tailgate date), includes post to record, and ends when the material is stowed in location. Includes wholesale new procurement and retail material.

NIMS (National Inventory Management Strategy). A strategy for extending DLA's consumable item supply chain management from the wholesale level to the point of consumption.

Supply Availability (SA). The percent of Navy customer requisitions satisfied from on hand wholesale managed assets. Goals apply to the aggregate SA of the categories measured, not individual NSNs.

Unservicable returns. Measures the time from the date material is received at a distribution center (tailgate date), includes post to record, and ends when the material is stowed in location. Includes wholesale returns and MTIS (excluding MTIS with Project Codes Z5S, Z5T, Z5U, Z5V, Z5Y) returns in Condition Code F, G, and H.

Wholesale Delay Time. The average number of days measured from requisition birth date in DAAS of the stocking point replenishment requisition until the receipt of the materiel at the Ingleside MPC from the wholesale system Wholesale delay time includes POE processing time, any ICP processing time, depot processing, reconsignment, transit time, and backorder time.

Wholesale Returns. Measures the time from the date material is received at a distribution center (tailgate date), includes post to record, and ends when the material is stowed in location. Excludes Unserviceable Returns and all MTIS with Project Codes Z5S, Z5T, Z5U, Z5V, and Z5Y.