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Prepared Remarks
by
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Strategic Sourcing at Crane

MAGNITUDE OF THE CHALLENGE

Slide 2 - Agenda

Good morning, I am Commander Frank Aucremanne, Director of Public Works at Naval Surface Warfare Center, Crane. I thank you for this opportunity to present to you how we used the Navy's Strategic Sourcing strategy to right size my organization to efficiently and effectively provide Public Works related products and services to the host and all tenant activities at Crane.

My presentation is divided into three sections. The first part of the brief will address the magnitude of the challenge of operating and maintaining an installation the size and complexity of Crane. This will provide the necessary background as I then present how we used the various tools in the strategic sourcing toolbox to review every element of my organization. The final part of the presentation will provide you the results of these reviews along with my experience using these tools.

Slide 3 – Perspective

Crane is roughly 100 square miles in size and is the 2nd largest Navy base in the continental United States, with China Lake being the largest. As you can see here, we are 50% larger than Washington, DC, in physical size. Although we certainly do not have the number of buildings or people as in Washington, DC, we are in fact a small city.

Slide 4– Vital Statistics

We have over 2600 buildings and structures, which equates to 11 million square feet under roof. We have over 400 miles of roads, the largest railroad in the Department of Defense with 163 miles of track; and because of our isolation, we produce our own water and treat our own sewage. In addition to providing the operation and maintenance of these assets, my Public Works organization also provides transportation and environmental support to the base.

Managing Public Works at Crane is a monumental effort. The cost of providing Public Works support to the Navy, as the host activity and to the Army, Crane's major tenant activity, is under constant scrutiny, both internally and externally. Crane Navy and Army are both Working Capital Fund activities and compelled to be cost competitive.

Slide 5 – Infrastructure Management, Positions by Functions

The pressure to reduce the cost of providing services combined with the announcement of 576 positions for commercial competition, 283 within Public Works, drove us to develop a proactive strategy to achieve the most efficient and effective organization possible.

PICK THE TOOL THAT FITS

Slide 6 – Infrastructure Management Strategic Sourcing

This puzzle chart depicts various functions making up our Public Works organization functions.

Our environmental function, whose workload is constantly changing as new regulations are implemented, consists of less than 20 positions. To review this function, we used a combination of business case analyses, Business and Process Reengineering, and position management reviews.

Our utilities function was subjected to Business and Process Reengineering to strip away excess overhead prior to going through the privatization process.

We have just recently completed an A-76 study on our transportation function and implemented our MEO.

And finally, we used our Business and Process Reengineering methodology to completely redesign how we plan, execute, and monitor our maintenance and modernization of Crane facilities.

Slide 7 – Hazmat and Environmental Management

Although all the environmental programs were effective prior to our review, they certainly were not efficient. By effective, I mean we were totally compliant with all regulations, and we were constantly winning state, Navy, and DOD level awards for our programs. But, the program was disjointed with responsibilities spread across various elements of the Crane.

We first conducted a BCA and outsourced pest control and hazardous waste disposal. Following that we performed a position management review and combined three environmental functions/offices into one, eliminating positions while still providing service. And finally, we conducted a B&PR review of the management of hazardous material function in conjunction with our procurement and material management organization. Our resulting redesign is to outsource this function using what we called the MRO Prime Vendor concept. Under this concept, industry will assume responsibility for procuring, stocking, delivering, tracking, and when necessary, disposing of excess hazardous material.

When these redesigns are fully implemented we have outsourced over 60% of our environmental management positions.

Slide 8 - Utilities Privatization

The privatization process is underway for our utility systems. As I mentioned earlier, we produce our own water and treat our own sewage. We also maintain our own high voltage distribution system and generate and distribute our own steam. Using the B&PR process we grouped the operation, maintenance, and overhead functions of all utilities into one division, then stripped away excess overhead. In this manner we now have the privatization process looking at a complete, but severable function, which consists of 56 FTE.

We have advertised and received proposals. The technical and cost evaluation process began at the end of July 2001.

The benefits of privatization are significant if the process works as planned. Industry typically brings tremendous technology and capital to bear on modernization projects and reducing labor costs. We have excess treatment capacity in both our water and sewage plants. Crane cannot sell water or sewage treatment to neighboring communities. If industry operates our water and sewage plants, they will not be able to sell water, but can sell sewage treatment. We could benefit from industry selling sewage treatment to neighboring communities by lowering our sewage treatment costs. Also, as part of the privatization process, we will be able to transfer ownership of the assets to industry via a quitclaim deed. Transferring this massive amount of core infrastructure also transfers the maintenance and recapitalization responsibility. With over 150 miles of water and sewer lines to recapitalize, along with 107 miles of high voltage lines and 84 central boiler plants, we will be able to rely on industry to operate, maintain, and recapitalize our utilities with costs being passed to the Navy via a monthly utility bill. There is a downside to privatization, and that is the risk of not receiving the service required in a timely manner. With a daily payroll of almost $836K a water or power outage shutting down our technical facilities can have a tremendous financial impact on our business. The unanswered question is "Will industry provide the same outage response to restore utilities as we currently provide?" I now have the flexibility to allocate as many resources as necessary to correct a problem, being extremely sensitive to the lost revenue caused by outages. My employees have the same sensitivity as I do and intrinsic knowledge of how our systems are laid out and how they operate. We intend to address these issues during our technical evaluation and subsequent discussions, but until actual performance is demonstrated, we will continue to be concerned.

Slide 9 - Transportation

The 1997 CA Announcements included refuse operations and motor vehicle operations and maintenance. The following year material handling equipment and railroad trackage maintenance were announced. We felt it prudent to combine these functions to preclude a split in responsibility and liability post award. We subsequently requested and received permission to combine these functions under one study.

The CA process was rigorous and painful. The stress created by the process on both the team preparing the government's proposal and the affected employees is phenomenal, but it is this same rigor and pain that ensures the process is fair.

I said the process is fair, but that does not mean it is always the right process. The same controls that ensure award to the best value offeror, also stymies the potential for a "break through" in what and how you do your business.

The secrecy concerning the information in the Performance Works Statement (PWS), the Most Efficient Organization (MEO), the cost proposal, etc. often precludes the realization of opportunities. Additionally, the reluctance to expand the study beyond the function of the identified FTE to achieve additional savings further sub-optimizes the benefits of this holistic approach.

And finally, once an award has been announced, whether it has been won in-house or by industry, there is little motivation to look for further savings until the next competition. Everyone gets "locked" into the PWS so that they can withstand audit later.

Slide 10 – Maintenance and Modernization – Contracted Facility Support

I am not saying that there is not a place for using the A-76 process. There is a place for the A-76 process. Functions that are not inherently governmental and are very definable and severable are good candidates for outsourcing using the A-76 process. Crane already outsources the majority of its facility maintenance and support services. This slide provides a sampling of the functions that were previously performed in-house over the years. It should be noted these functions were converted to contract because we determined that it made good business sense and not because of externally imposed mandates.

Slide 11 – Maintenance and Modernization B&PR

The final Public Works function that I will discuss is our Maintenance and Modernization. Maintenance and Modernization includes the entire spectrum of inspecting facilities, identifying deficiencies, executing repairs, performing preventive maintenance, and developing and implementing long-range master plans.

The tasks that fall under the Maintenance and Modernization function appear to many to be severable and definable, and therefore a good candidate for A-76. I disagree. The A-76 process is too focused on "quantum" and fails to focus on process. B&PR has provided us a disciplined, structured process to peel back the onion and look at the whole cost of Maintenance and Modernization across Crane, not bits and pieces of it. We identified what we did (that is the quantum) and how we did it (that is the process). We reviewed over 190 policies and procedures when we defined our "As-Is". The quantum provided us the data necessary to compare our performance with industry benchmarks. The processes mapping allowed us to then look at industry best practices. And as expected, we found we were not competitive with industry in terms of efficiency and effectiveness. We also found that our organizational structure was outdated in comparison to industry. Finally, we found a lot more individuals involved in Maintenance and Modernization than we thought.

Slide 12 - Maintenance and Modernization

A strong recommendation of industry during this redesign was to maintain an in-house core capability of craftsmen to support the operation, maintenance, and repair of our facilities and equipment core to our mission. These craftsmen possess what Dr. Thomas Schwen of Indiana University School of Business calls "intrinsic knowledge." They are very knowledgeable of the entire base, the buildings, and the systems within the buildings. This decision was based on an assessment of risk tolerance whereby industry outsources what is not mission-critical, and retains control and capability in those critical areas.

Earlier I talked about magnitude of the challenge. After our redesign, we ended up with only 57 craftsmen in our entire organization supporting the entire base, not including the utility systems. To illustrate how lean we have become, we have only 9 HVAC mechanics to support 559 systems providing heat and air conditioning across the base.

As a result of our B&PR process we identified excess infrastructure and ways to achieve additional savings by increasing density and demolishing or mothballing excess capacity. Strictly following the A-76 process, we would have never identified this excess infrastructure. As illustrated here, we consolidated functions and demolished almost 200,000 square feet of space in the last two years. This is part of a 10-year plan to eliminate or find new uses for 500,000 square feet of space. The benefit here is not only potentially fewer people, but also reduced utilities, maintenance, and repair backlog.

One of the requirements of the B&PR process is to identify those functions that you will never do well and to make a recommendation on how to accomplish them. We identified several items, of which two are worth noting.

Specifically, we got out of the business of doing any work greater than 16 man-hours in-house. All of this work is now passed to industry via whatever means is most efficient. We also identified boiler operations and maintenance as areas that should go through the CA process. However, this has been overcome by privatization and is on hold pending the outcome of the privatization study.

THE RESULTS

Slide 13 – Infrastructure Redesign

Conducting a B&PR on our Infrastructure Management at Crane has resulted in reducing personnel in the Public Works organization from 376 in FY97 to 300 today, a 20% reduction. Middle management has decreased by 66%. We expect to reduce even more as we complete the utilities privatization study. I do not believe the A-76 process would have accomplished these sweeping changes and resultant reductions in FTE we have seen to date.

I want to close by making an analogy between strategic sourcing and the acquisition process. Acquisition has undergone tremendous change over the last 15 years. It was not too many years

ago that the only acceptable means to procure products and services was the sealed bid process. Now we have a variety of tools in our acquisition toolbox. We have the credit card program, simplified acquisition process, commercial contracts, multiple award contracts, design-build contracts, performance-based contracts, and now beginning to get comfortable with outcome-based contracting. Sealed bids are almost a thing of the past.

I think it is time for us to embrace this same paradigm shift in outsourcing. We now have a strategic sourcing toolbox and one of those tools is B&PR. From what I have seen and experienced firsthand, it provides greater opportunity for improvement than A-76.

In closing I would like to thank you for this opportunity to address the panel, and I hope my comments provide you with some food for thought as you address this challenging issue.