

Testimony Before the GAO Commercial Activities Panel
8 August 2001

Prepared Remarks
by
Robert J. Matthews

Business and Process Reengineering Project Leader
Crane Division, Naval Surface Warfare Center
Naval Sea Systems Command

Strategic Sourcing at Crane

Slide 2 – Our Strategic Sourcing Plan

Good morning. My name is Bob Matthews. I am the project lead for Business & Process Reengineering (B&PR) at Crane. This morning I will be describing how we implemented B&PR at Crane as a pilot for the Naval Sea Systems Command with our B&PR methodology eventually being formalized as part of the Navy's Strategic Sourcing Program.

I will begin by defining framework and methodology not only for reengineering our business and processes, but getting the changes reviewed, approved and obtaining an implementation budget. I will close by describing several of our redesigns and sharing with you the results.

B&PR is a major initiative at Crane. Since our B&PR was initiated in March 1998, Crane has spent \$5.3 million for in-house study teams, \$3.6 million for consultants, and \$4.8 million for implementation. This \$13.7 million has come out of Crane's own overhead budget as an internal investment. This type of corporate commitment gives you an indication of our commitment to strategic sourcing.

Slide 3 – Approval Process

B&PR Assessment Teams

B&PR at Crane is very structured, including the composition of the teams, reengineering methodology used by the teams, and review of the redesign recommendations.

First, the Deputy Executive Director is responsible for a corporate "core team" that provides the overall guidance for the project. The core team consists of a project leader, an AFGE lead, and subject matter experts. The subject matter experts are made up of individuals with IDEF modeling experience, facilitators, analysts, database administration, a communication leader, and personnel specialists. All of these team members are full-time and dedicated to the B&PR project.

Individual assessment teams have a full-time leader and team members that are expert in the process that is being evaluated. Team members participate on the B&PR about 30% of their time.

Approval Process

The recommendations of the team are first briefed to a Steering Team. The purpose of the Steering Team is not approval/disapproval. Rather, the members of the steering team will voice concerns about what the team is proposing, be an advocate for a proposal and debate the issues; particularly the request for a budget to implement.

Approval and Oversight – As-Is and To-Be Phases

The final approval rests with an Executive Oversight Team. There are two points in the process where the team must obtain signature approval of the team before proceeding to the next stage. This is at the approval point for a redesign and an implementation plan. The reason for this more formal step is that people are about to be impacted and/or corporate funding is required.

Slide 4 – Our Strategic Sourcing Plan

Slide 5 - B&PR Assessment Process

Methodology

Crane and our consultant (Arthur Andersen) jointly developed a B&PR methodology and documented the methodology in a guidebook. This methodology is followed by all teams.

The timeframe to conduct an assessment from beginning until a recommendation of a “To-Be” redesign depends on the complexity of the process. Most of the Crane B&PR assessments have involved between 150 and 250 full-time equivalents (FTE) and has proven to be about one year. Implementation occurs in phases but completes about one year after the redesign is approved. So, it takes two years from start to finish.

To point out some key milestones in the process

1. During the “As-Is high-level assessment” the process has been mapped and data collection is done to ascertain the baseline. Savings in the end will be compared back to this baseline.
2. During the “Develop To-Be Assessment” the team must evaluate the potential for outsourcing the business process totally or in part. We developed criteria for the teams to use and I will present that in just a moment.
3. At the “Implementation” phase, all personnel realignment is carried out in accordance with the procedures agreed to in the Labor/Management memorandum of agreement.
4. We designate senior leaders as “Process Owners” and there is a handoff between the Core Team and the Process Owner at the Implementation phase of B&PR. The methodology requires the process owner to present a review to the senior leadership six months after implementation. After one year our internal Command and Evaluation conduct an independent assessment.

Benchmarking

Two of the most important aspects of the Crane B&PR is the benchmarking research and partnerships that have evolved. These have contributed greatly to our success in redesigning

Crane. On their own, our employees are surfacing ideas that save 10 to 15 percent. But through benchmarking they are learning new ways of approaching a process and are adapting best practices. Adopting these new practices have resulted in teams implementing redesigns that are resulting in reduction in cost in the range of 25% to 35%.

Our benchmarking visits are not for the purpose of taking interesting tours of industrial facilities and enhancing public relations with industry. Through these visits, we have gained a better understanding of our own processes, how to better measure what we do, and how better to solve specific problems.

Slide 6 - Benchmarking Partners and Research

This is a representation of the extent to which we have consulted with other government, industry, and academia in benchmarking. As a result, today we have established, continuing relationship with many of these organizations.

Slide 7 – Criteria for Outsourcing

The Labor/Management agreement provided the B&PR project team with these precepts for considering a business function for outsourcing. Each team worked through the circumstances of the process they were assessing in its totality, which includes how that process interfaces with the rest of the organization and how it contributes to accomplishing the mission. These findings were then presented to the Executive Oversight Team for approval.

The general criteria to exclude a position from outsourcing is: (1) inherently government in nature; (2) of strategic importance to the mission; (3) involved critical process knowledge; and (4) the impact on the economic viability of the organization.

A separate consideration that would preclude outsourcing was benchmarking data that proved that a competition would not produce further savings. In other words there is data to support the conclusion that industry is not interested or not competitive. This condition was never invoked by any of our teams.

The primary consideration has been in the context of the risk to the mission. We learned from industry that you have to retain some expertise in a function or you cannot manage and direct that function. There is a reluctance in industry to contract out 100% of anything, unless it is viewed as a function that has very impact the organization.

Slide 8 – Positions Studied Multiple Times

The Crane B&PR was a total organizational assessment encompassing all 3,200 employees. Many of our employees are in positions that have been evaluated more than once by various strategic sourcing tools, such as B&PR, direct conversion, A-76 competitions, and privatization.

Slide 9 – Our Strategic Sourcing Plan

Slide 10 - Material Management Process Model

An example of a process model is material management simply described as the receipt, storage, and issuing of material. After a team has defined the process model, data collection occurs with all process costs being mapped into the IDEF model. This “As-Is” data collection becomes the baseline from which the savings are later measured.

Slide 11 - MM Redesign Summary

The material management team did not approach the reengineering in terms of process reengineering, but rather by what they termed “lines of business”. The material management redesign resulted in: (1) Crane getting completely out of the business of managing general operating supplies; (2) Crane discontinuing “cross-dock operations” (moving received material across a central dock and distributing it to appropriate operating buildings), now requiring vendors to deliver directly to operational buildings; and (3) Recommending commercially competing our shipping function through the A-76 process (Note that function has been announced to Congress and the A-76 study is underway); and (4) The distribution process was streamlined and employees were cross-trained for multitasking.

Slide 12 - Comparative Results

From our material management reengineering experience, we found that by taking a broader and more comprehensive view of a function, more wide-spread results can be achieved. In the material management example we impacted how we bought material, moved material around the base, and where it was stored. This led to our ability to cut cost in other areas and to completely empty and demolish some small warehouse buildings.

The commercial activity piece of this was more or less the warehousing operations.

Slide 13 – What have we achieved overall

Slide 14 - We are Achieving Results

These are the primary assessments that we have implemented. Savings recognized are:

- Material Management – 37 %
- Financial Mgmt - 30 %
- Infrastructure Mgmt - 20 %
- IT Develop and Deploy - 28 %
- Direct Support - 24 % (Test Equipment Management and Environmental Test)
- Transportation CA - 24%

Slide 15 - Recurring Yearly Net Savings

This final chart shows our savings goals, investments, and progress to date. As I mentioned earlier, we have invested over \$13 million to study, reengineer, and implement the B&PR redesigns at Crane. We have used a variety of tools to restructure and have realized \$18.2 million in net savings. Approximately 80% of the savings have been in labor. Bill Mason showed you earlier how through our personnel transition office we managed that without a RIF.

Captain (Sel) Aucremanne, Crane's Public Works Officer, will now present a specific example of how we applied our B&PR reengineering methodology to Public Works and the resulting successful redesign implementation.