
Navy's New Approach To Cooperative Logistics Supply Support Arrangements (CLSSAs) For The 1990s

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BACKGROUND

The United States Navy has long engaged in Cooperative Logistics Supply Support Arrangements (CLSSAs) with its Foreign Military Sales (FMS) customers. A CLSSA is a cost sharing stock replenishment program available to USN FMS customers who operate modern weapons systems that are common to our inventories. Under a CLSSA, customer operations planning data is combined with USN demand data to determine the customer's anticipated support. The customer and the USN join in a cooperative cost sharing ownership arrangement that significantly reduces supply lead times for spares and repair parts.

The CLSSA concept provides the customer and the USN with numerous economies of scale. A CLSSA also provides the customer with greater access to our supply system than does another common FMS logistics support vehicle—the Direct Requisitioning Procedures (DRP) case (see figure 1). CLSSAs are limited to centrally managed, stock-numbered items; the customer's requisitions are given access to U.S. supply system stock similar to USN requisitions of the same priority. Presently, the USN has negotiated CLSSA support with 23 countries for 28 different weapons systems (see figure 2). The Naval Supply Systems Command (NAVSUP) manages all USN CLSSA cases.

FIGURE 1
DRP vs CLSSA IMPACT ON MATERIAL AVAILABILITY

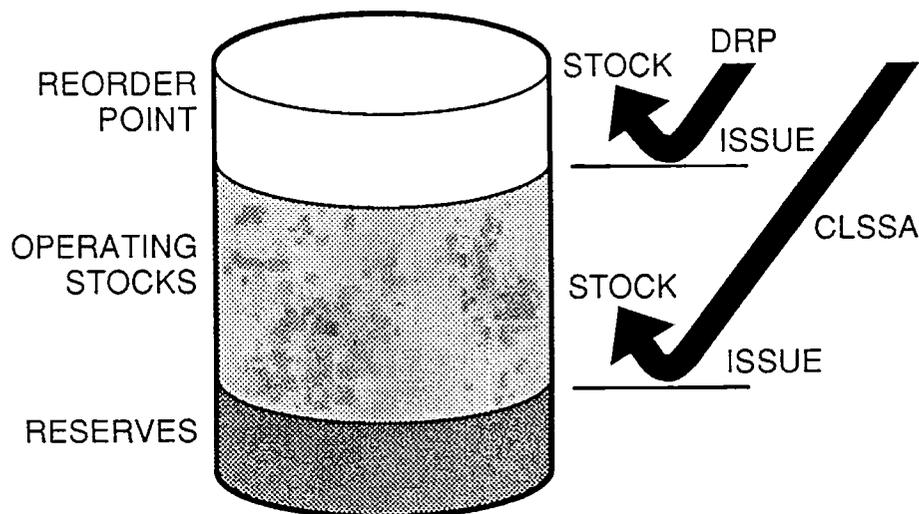
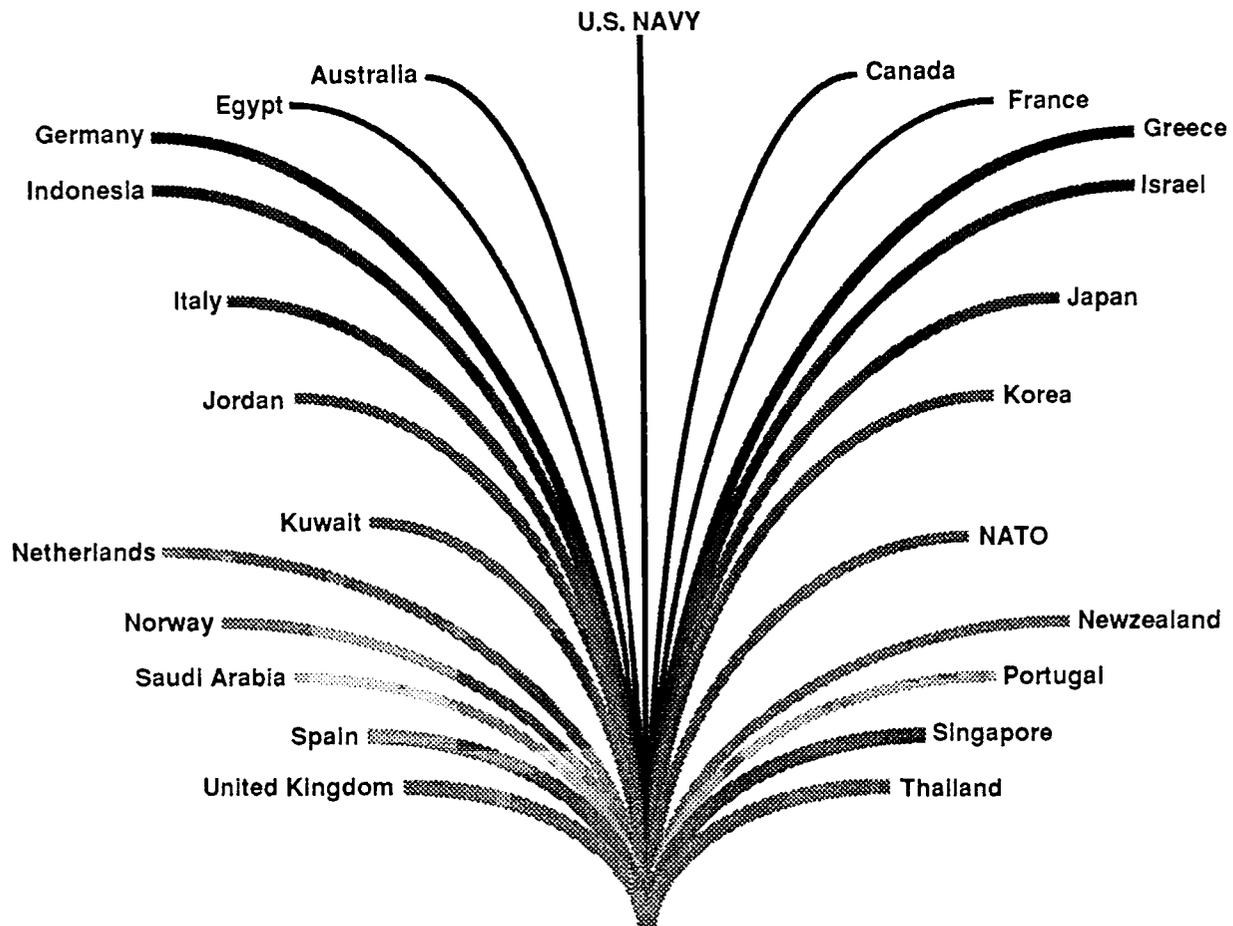


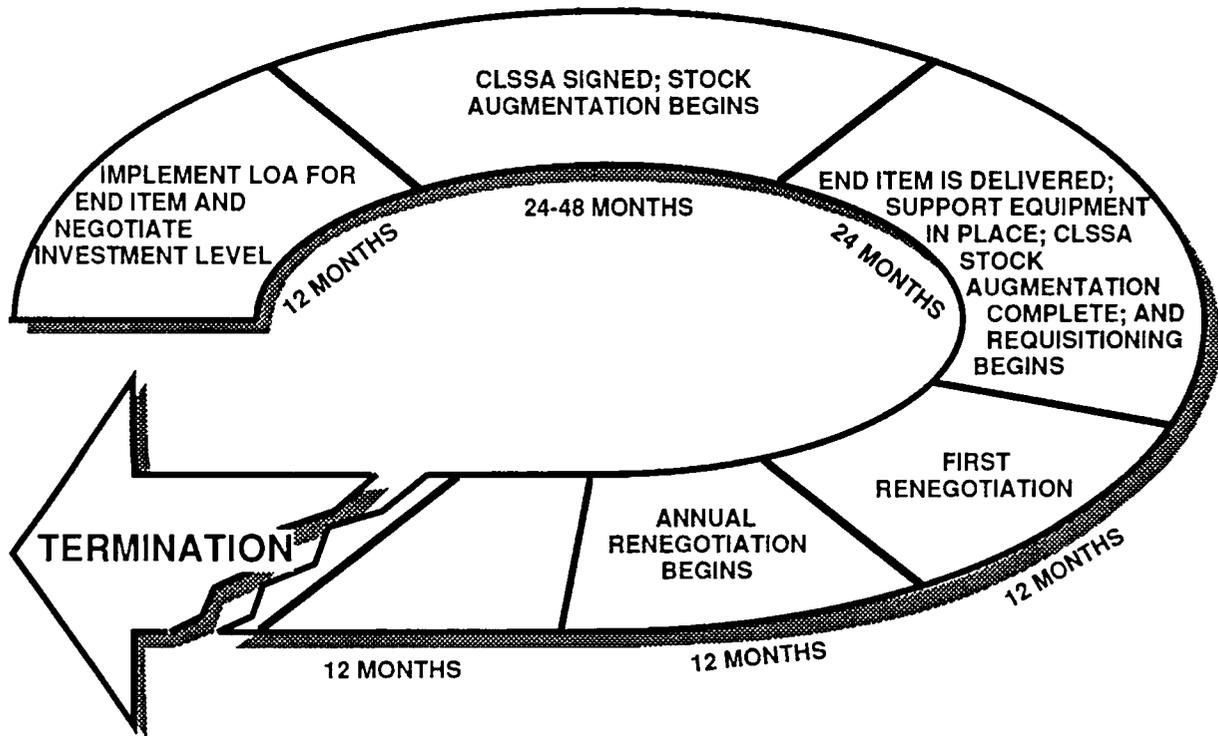
FIGURE 2
CLSSA PARTICIPANTS



A CLSSA will involve the establishment of two FMS cases—the FMS Order I (FMSO-I) case and the FMS Order II (FMSO-II) case. The FMSO-I case represents the investment in the supply system (USN and/or DLA stock). The size of the customer's investment in the FMSO-I case is 5/12 of the Estimated Annual Demand (EAD). Upon implementation of the FMSO-I case, Item Managers at the ICPs may begin to augment USN stock to cover the customer's anticipated requirements. The FMSO-II case is the open ended case under which the customer's in-country depot stocks are replenished. Renegotiation is the process whereby the funding investment level is regulated to coincide with the customer's level of demand or major equipment configuration changes. Currently, NAVSUP manages 50 FMSO-I cases with a value of \$270.7M and 264 FMSO-II cases with a total value of \$969.6M.

The normal life cycle of a CLSSA involves: (1) implementing a Letter of Offer and Acceptance (LOA) for the end item with the FMS customer; (2) negotiating an investment level with the customer (an equity list is prepared by the supporting Inventory Control Point (ICP) that identifies the customer's EAD and proportionate investment in the U.S. supply system); (3) a formal written arrangement, specifying terms and conditions, is attached to the LOA for the FMSO-I case; (4) upon acceptance of the LOA, the ICP initiates stock augmentation actions; (5) upon completion of stock augmentation, the customer begins requisitioning for stock replenishment; (6) demand is monitored and "renegotiations" are scheduled to occur on an annual basis; and (7) the CLSSA is terminated (see figure 3).

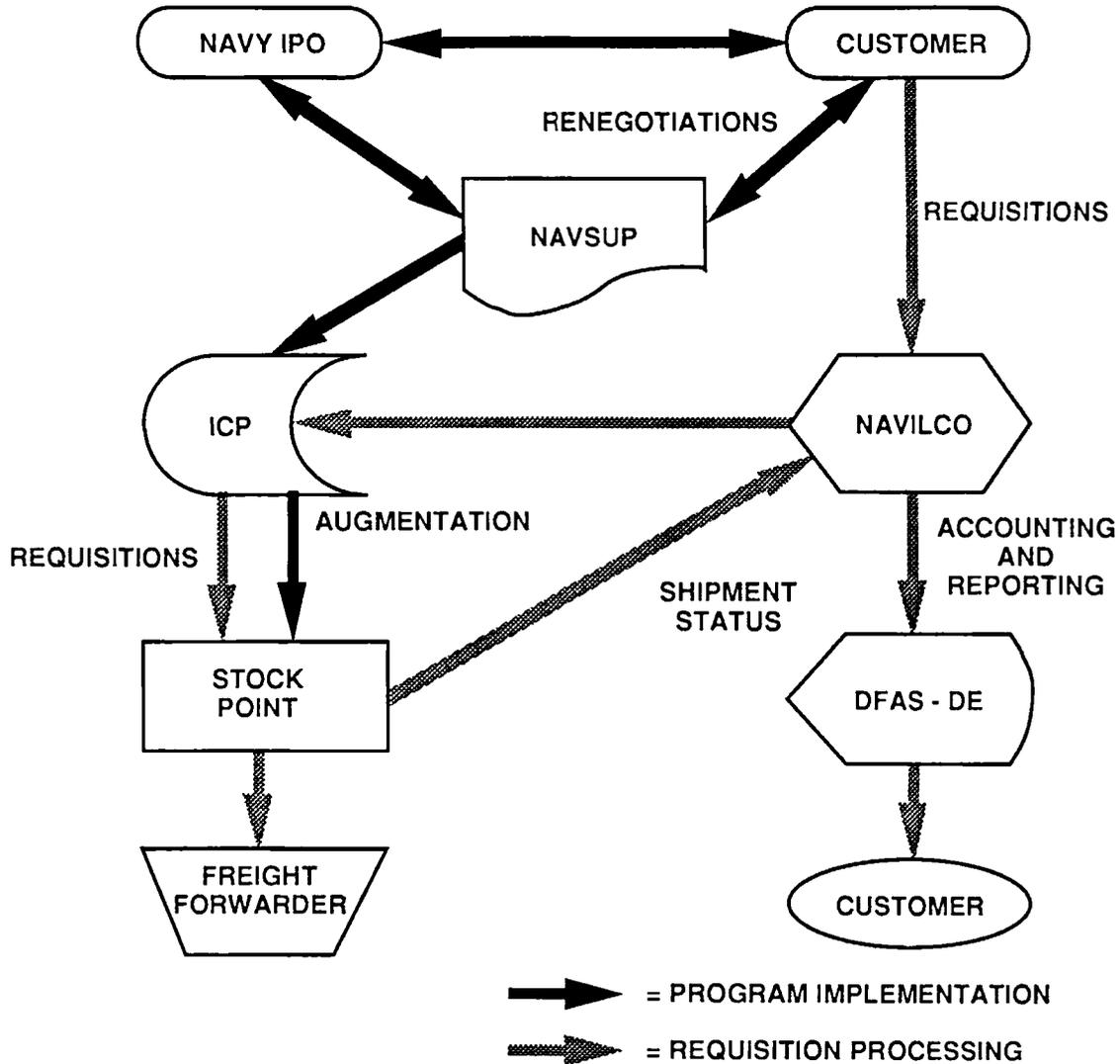
FIGURE 3
COOPERATIVE LOGISTICS SUPPLY SUPPORT ARRANGEMENT CYCLE



This time line shows how the Cooperative Logistics Supply Support Arrangement process fits into a total life cycle support effort. This chart depicts an ideal situation where a CLSSA support decision is made when the end item is purchased. Upon implementation of the Letter of Offer and Acceptance (LOA) for the end item, the investment level is negotiated. Within 12 months, stock augmentation begins. The end item is delivered; and stock augmentation is completed within 24 months. Requisitions can now begin. Demand is monitored and the first renegotiation can be considered within 12 months. In most instances the demand is monitored for 24 months, with subsequent renegotiations annually

Renegotiation is generally pursued after there has been at least 24 months of experience and a deviation of 25%, or greater, exists between the estimated and actual demand. (NOTE: the term "renegotiation" will continue to be used throughout this text; a more appropriate term - such as "investment adjustment"—may soon replace this term). A dollar refund, material settlement or a combination of the two will be recommended in cases in which the customer is over-invested. When actual customer demand exceeds anticipated demand, an additional investment by the customer will be required. The Navy International Programs Office (Navy IPO) offers the CLSSA and associated FMS cases to the customer. The customer accepts the CLSSA and deposits funds in the FMS Trust Fund account (these funds are subsequently transferred to the Defense Business Operating Fund [DBOF] to facilitate stock augmentation and procurement). The Naval Supply Systems Command (NAVSUP) Security Assistance Directorate (SUP-07) manages CLSSA cases, distributes augmentation funding and conducts renegotiations with the customer. The ICPS identify spares and repair parts to be stocked, augment inventories and process customer requisitions. The Navy International Logistics Control Office (NAVILCO) performs accounting and reporting. These, and other USN and DoD activities involved in the CLSSA process, are shown in figure 4.

FIGURE 4



CLSSA: THE PROCESS CHANGES

Until last year, the USN conducted the CLSSA process in much the same manner that it is described above; however, since the vast majority of cases reflected an over-investment by the customer, neither the USN or the customer insisted on an investment change. As a result, the majority of USN customers remained over-invested in their CLSSA cases. In 1990, the Naval Audit Service conducted a review of the CLSSA process and recommended several significant changes to the way business was being done. These changes are: first, renegotiation will be mandatory and not optional; second, that the obsolescence factor (which is part of the standard price computation) does not release foreign customers from responsibility for their pro rata share of potential excess material; and third, that the foreign customer can no longer defer the renegotiation process.

In the past, the USN considered the obsolescence factor part of the standard price computation and did not hold the customer to its pro rata share of excess material. Over-

investments, when renegotiated, were settled on a cash refund basis only. In view of the DoD-wide potential excess inventory, the Naval Audit Service recommended that a material settlement with the customer must be made before the U.S. supply system disposes of the customer's pro rata share of excesses. The Naval Audit Service also recommended that a cash refund of a customer's over-investment could only be made after ensuring that a material settlement was attempted first. The "bottom line" now is: the customer assumes the same risks as well as benefits when they invest in our supply system. A pro rata share of excess inventory is one of those "risks."

These recent Naval Audit Service findings and recommendations, and the growing pressure on the USN to dispose of excess inventory, required that NAVSUP carefully review the "CLSSA process" and revise its CLSSA renegotiation procedures. SUP-07 worked closely with: the NAVSUP Comptroller (on issues relating to DBOF); the Defense Finance & Accounting Service (DFAS) - Denver (on issues relating to the FMS Trust Fund); NAVILCO and the ICPS (on issues relating to special requisitioning procedures, stock applicability and stock availability); and Navy IPO (on issues relating to policy and customer liaison). NAVSUP developed, coordinated and implemented detailed new procedures and an aggressive POA&M that scheduled the renegotiation of 35 CLSSA cases with 18 customers during calendar year 1992. This schedule was successfully achieved and, in all but one case, the renegotiation process occurred on a face-to-face basis with the respective customers.

THE NEW PROCESS

Renegotiation, in the case of under-investment, remains relatively simple; there is no material settlement required. What is required is to: calculate a new EAD; determine the additional on-hand cash investment required; determine the length of the waiting period or (with ICP concurrence) if the waiting period can be waived; and amend the FMSO-I and FMSO-II cases.

The new procedures, used to determine whether a material settlement or a cash refund (or both) will be offered to the foreign customer as a result of a downward adjustment or termination of the CLSSA, follow. The NAVSUP case manager will pursue renegotiation if the actual demand deviates from the estimated demand by 25% or more, or if there are configuration changes that cause a significant adjustment to the investment. The case manager will notify the customer of the need to renegotiate the CLSSA by inviting the customer to a formal meeting hosted by NAVSUP and attended by Navy IPO representatives. In addition, the case manager will task the ICP to: identify Planned Program Requirements (PPRs) related to the FMSO-I; and provide a potential excess list (assets over and above the contingency retention level) for the weapons systems being supported. Both repairables and Navy-managed consumables will be included on the Potential Excess List.

The ICP will also provide the customer's pro rata share of supply system excesses. This can be done by comparing end item populations (U.S. to the particular customer), requisition volumes, or other means. The rationale and back-up documentation used in developing this pro rata share must be retained by the ICP for audit purposes. The customer's pro rata share is then expressed as a percentage—e.g., 5% of the total supply system excess material for the particular weapons system is the particular customer's pro rata share.

The NAVSUP case manager then tasks NAVILCO with providing the itemized front-end screen list for the weapons systems supported. This data can be used to determine the excess material related to the customer's particular weapons system configuration (if the ICP excess list does not already make this determination). The case manager then extracts from the Management Information System International Logistics (MISIL) the "commitment" values from existing FMSO-II cases. The NAVSUP case manager next determines the customer's actual annual demand average (the dollar value of the three highest demand years' commitments divided by three). This "actual annual demand average" will become the basis for determining the value of the

new FMSO-I case, after renegotiation. The "actual annual demand average" becomes the EAD of the renegotiated FMSO-I. The difference between the "actual annual demand average" and the current EAD (before renegotiation) is the amount subject to settlement.

If the value of the FMSO-I PPRS exceeds the value of the actual demand averages, the PPR value will be utilized. Therefore, the difference between the PPRs and the EAD (before renegotiation) is the amount subject to settlement. As the dollar value of the actual annual demand average or the total of the PPRs becomes the renegotiated EAD, 5/12 of the difference between the EAD before renegotiation and the EAD after renegotiation is the limit of customer cash required, cash refund, and/or material settlement.

The NAVSUP case manager—using the FMSO-I breakout (dollar value of repairables, Navy-managed consumables and all other consumables [GSA, DLA, etc.]), the Potential Excess List, the pro rata share percentage provided by the ICP and the front end screen list provided by NAVILCO—will then match the National Item Identification Numbers (NIINs) that appear on the front end screen list or the PPRs to the Potential Excess List. For those items that match, the case manager will summarize the total dollar value of supply system potential excess.

This matching process, and the application of a pro rata share, is done for repairables, consumables and non-Navy consumables. For repairables, if the ICP provides a potential excess list that is tailored to a particular customer, the match between the front end screen and the Potential Excess List is not necessary. For consumables, if the ICP provides a tailored potential excess list, the pro rate share percentage will be applied directly to the tailored list. Navy refunds of cash deposited in the DBOF (formerly the Navy Stock Fund) to support demands on DLA/GSA stocks will be in the same ratio and pro rata share as computed for investments in Navy stocks.

Once this detailed, preliminary process is completed, the case manager will then schedule the meeting with the customer and utilize standard presentation materials and follow-on letters that explain this process, step-by-step, to the customer. When the customer is under-invested, the NAVSUP case manager will prepare case amendments, as required, and upon implementation, will provide a fund distribution letter to the ICP. In the case of over-investment (all but one of the 35 cases renegotiated in CY 1992 was over-invested), the following actions will be taken:

(1) the customer selects items to fill the material settlement obligation and provides this information to NAVSUP;

(2) the case manager sends a memorandum to the NAVSUP Comptroller requesting a transfer of funds from DBOF to the Trust Fund;

(3) when the funds are deobligated in MISIL, the case manager prepares FMS Planning Directives to reduce the FMSO-I case and increase the FMSO-II case;

(4) the case manager sends a letter to Navy IPO requesting FMSO-I and FMSO-II case amendments;

(5) the case manager sends a letter to the customer advising of the case amendments and requesting that the customer notify DFAS-Denver concerning funds redistribution; and

(6) the case manager tasks the ICP to coordinate with NAVILCO and process as "push requisitions" the items identified by the customer as material settlement selections. The ICP will ensure that these requisitions are coded with a "fill or kill" advice code and as non-recurring demand.

If the customer chooses not to select from the excess material, the customer will receive the current disposal value proceeds for its pro rata share of the excess material. (NOTE: these proceeds are based on a "rate of return from excesses" percentage that is annually provided by DLA. This rate was 2.22% for CY 1992 renegotiations and is 1.96% for CY 1993 renegotiations.)

A DYNAMIC, ITERATIVE PROCESS

The first year of experience with this new process has proven that the turnaround time involved can be very slow; continuous tracking by the case manager is a necessity. For USN FMS customers, the new process represents a significant change in how we do business; neither side is familiar with the process of renegotiation. Customer representatives, located in the United States and in the host country, must have time to digest and understand this new process, adapt it to their own supply and financial constraints, and respond to our settlement alternatives. Some customers are accustomed with how the U. S. Army conducts the CLSSA renegotiation process—allowing customers 18 months to select their pro rata share of excess. Other customers may be frustrated by the differences in USN, U.S. Army and U.S. Air Force policies and practices. Still other customers may be faced with financial constraints—such as the need to cross-level funds from one case to another.

Most recently, customers have expressed a desire to process the drawdown of the FMSO-I material under the existing FMSO-I case. Specialized procedures to accommodate this approach have also been developed. A significant factor that is stressed throughout the renegotiation process is the "temporary" nature of U.S. inventory levels. The continuing emphasis on eliminating inapplicable assets in the DoD supply system is giving our FMS customers a smaller "window of opportunity" to select from excess inventory items.

To date (February 1993) , the CY 1992 USN CLSSA renegotiations (for FMSO-I cases with an "on hand" value of \$67M) have resulted in: \$13.5M in cash refunds (transfers from DBOF to the FMS Trust Fund customer accounts); and \$19.4M in material settlements of the customers' pro rata shares of our excesses. Customers have applied \$2.4M in requisitions against these excess material settlements.

This past year, 1992, was a watershed year for the U.S. Navy, NAVSUP, and the foreign customers who have come to rely on CLSSAs for long-term weapons systems logistics support. USN CLSSA renegotiations were conducted in Washington, DC; at an Air Force Program Management Review in Los Angeles; overseas; and by Federal Express—by whatever means of dialogue that the customer requested. These new procedures are now also routinely discussed at Case Reconciliation Reviews (CRRs), PMRs, and other periodic meetings with customer representatives.

Total Quality Leadership (TQL) initiatives at NAVSUP HQ contributed to streamlining the CLSSA process. Several Process Action Teams (PATs) examined alternative methods to compute CLSSA case values and alternative methods to tailor the equity lists they are based on. Undoubtedly, other external and internal factors (both domestic and foreign) will emerge and affect the CLSSA process. The painstaking efforts of the past two years, to proceduralize this process, will make it easier for the U.S. Navy to adapt to those new forces as they shape the manner in which we conduct future business with our customers.