

A Strategic Approach to Contingency Contracting

As corporate and military strategic decisions stretch the supply chain, strategic contract management becomes critical to effectively and efficiently employ resources filling the noncore void, specifically within contingency operations. The purpose of this article is to explore the application of a strategic approach to contingency contracting to more effectively and efficiently plan and support contingency operations.

BY TONY D'ANGELO, DANNY HOUGLAN, AND EDWIN RUCKWARDT

Introduction

Similar to the commercial sector, the Department of Defense (DOD) continues to decrease its organic capability to focus on its core competencies. As internal capability decreases, the importance of contract management increases to support these core competencies. Current DOD business transformation efforts tailor commercial best practices toward the more efficient and effective use of scarce resources to train and equip the warfighter.¹ Collectively, such best practices point toward a shift from tactical (or transaction) purchasing to strategic contract management. However, it seems that business transformation initiatives within DOD have overlooked the area of contingency contracting.

DOD now has the opportunity to capture more value by applying a geographic, enterprisewide contract management approach that aligns contracting strategy with DOD's geographic strategic objectives from its current tactical orientation. Implementing a strategic approach can network key geographic suppliers into a regional framework that will increase the value DOD captures from external suppliers and will also aid in the planning of future contingency operations.

I. A Strategic Approach to Contract Management

Firms consistently jockey within markets to create value positions. A transaction's total value is the difference between the customer's "willingness to pay" for a product or service and the supplier's opportunity cost, or "willingness to sell."² A firm's added value to the marketplace is a concept that plays a

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This article solely represents the views of the authors and does not necessarily represent the views of the U.S. Air Force or the U.S. Navy.

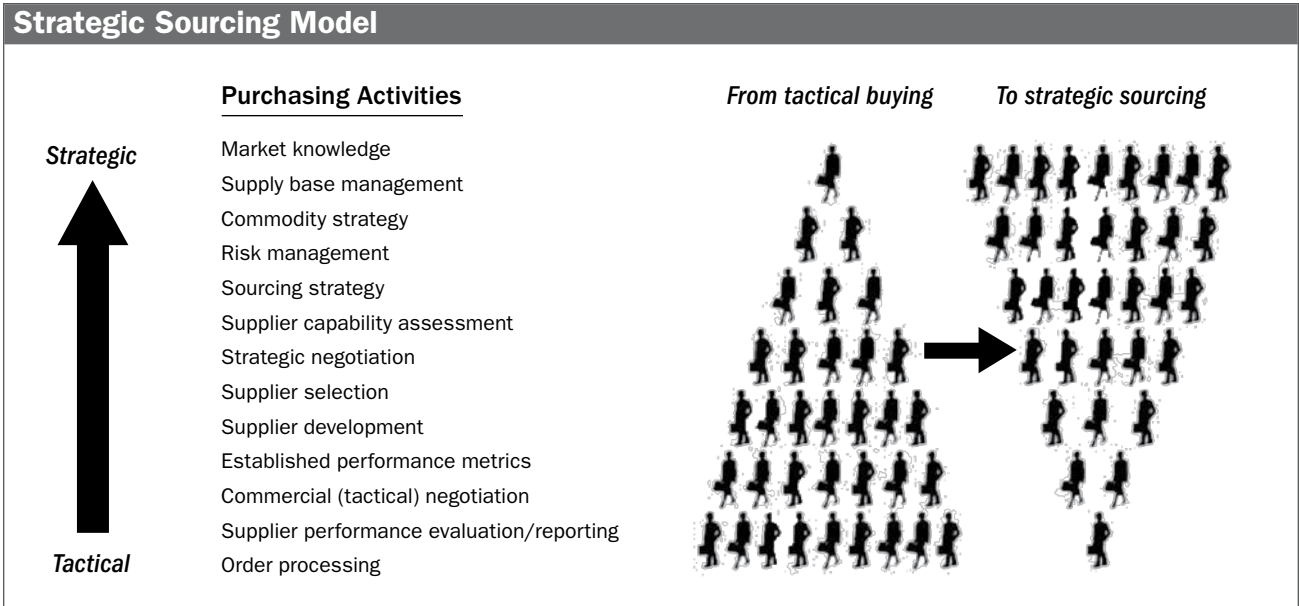


FIGURE 1.

large role in determining profit and also links to competitive advantage; it is also the wedge the firm establishes between customer willingness-to-pay and supplier opportunity cost beyond what its competitors achieve. Therefore, the firm with the greatest added value, or widest wedge, has a competitive advantage within the market.³

A firm can establish an advantage in two ways: (1) by reducing supplier opportunity and input costs without sacrificing commensurate product value and customer willingness-to-pay, or (2) by increasing product value and customer willingness-to-pay without incurring a commensurate increase to cost.⁴ Over time, firms' strategies change to sustain or increase competitive advantage. Although strategy dictates what actions a firm will take, it also plays an important role in deciding what actions a firm does not take.⁵ In order to influence competitive advantage, firms identify core competencies to guide their business activities and noncore activities to source from more efficient suppliers. Such a strategic view of business increases the importance of taking a strategic approach to contract management as a source of competitive advantage to increase product value and reduce cost.

Three important aspects of strategic contract management initiatives include: (1) strategic sourcing, (2) sourcing strategies, and (3) commodity strategies.

1. Strategic Sourcing

Strategic sourcing inverts the traditional tactical buying structure. FIGURE 1 above illustrates the personnel emphasis within a tactical buying and strategic sourcing model. A tactical buying organization employs a majority of personnel at lower, decentralized levels. This tactic fragments purchases and focuses on short-term, one-time buys and not long-term, mutually beneficial relationships. Very few employees work at strategic levels to leverage and integrate supply chains to benefit the organization.

Aggregating the firm's requirements at the strategic level inverts the tactical buying structure toward strategic sourcing. A preponderance of personnel focus is directed at market knowledge and supply base management, while relatively few execute orders. This aspect of a strategic approach optimizes the number of suppliers that provide specific goods or services. By rationalizing the supply base, less personnel will focus on transaction-by-transaction orders, and more will focus on developing and integrating the corporate supply base and supply chain.⁶

2. Sourcing Strategies

Sourcing strategies classify organizational spend by assessing supply position to develop an appropriate strategy that mitigates supply weaknesses and efficiently uses a company's buying leverage.⁷ FIGURE 2 on the next page presents Kraljic's portfolio approach⁸ to classify goods and services based on

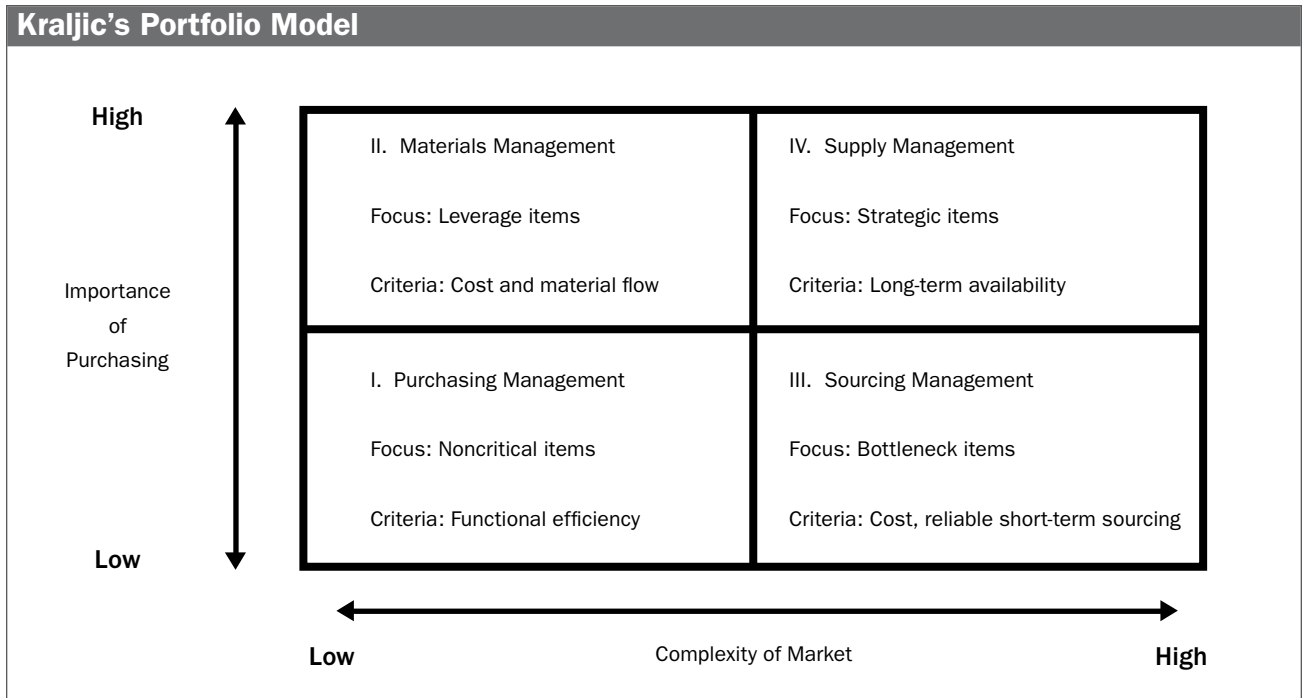


FIGURE 2.

their strategic importance to the firm and market complexity. This approach develops broad sourcing strategies that require varying investments of time and resources to minimize supply vulnerabilities and maximize potential buying power. From the broad portfolio approach, the procurement agency may tailor strategies for individual commodities or commodity strategies.

3. Commodity Strategies

Two key aspects of commodity strategies are: (1) industry analysis and (2) entrepreneurial insight. Generating competitive advantage typically links to industry analysis to devise strategies that neutralize unattractive industry features and accentuate more attractive features.⁹ Industry analysis exhibits “Porter’s five competitive forces,” which shape strategy to better understand the market structures. These competitive forces include:

- Customers,
- Suppliers,
- Potential entrants,
- Substitute products, and
- Existing competitors.¹⁰

Competitive advantage can spring from better management of supplier relations by contract managers to streamline supply chains, driving down both supplier opportunity costs as well as actual product input costs of the producer.¹¹ Additionally, creativity in capturing opportunity and competitive advantage exists within markets in the form of entrepreneurial insight.¹² Entrepreneurial insight identifies opportunities within markets to create and capture value. This can manifest itself as a new offering or mapping of an existing offering’s attributes and the corresponding effects it has on cost and willingness-to-pay. Opportunities exist to improve cost-to-value positions by eliminating less desirable attributes and adding more desirable attributes to product offerings in pursuit of improving product value yield.¹³ There is also the need to segment spend within products to identify key drivers.¹⁴ Each of these relates to DOD using cost as an independent variable to make product attribute tradeoffs as a function of cost-to-value positions.

Commercial Application

Many firms take a strategic approach to procurement as a way to gain competitive advantage. Four examples of such firms include IBM, Dell, John Deere, and Fluor.

Example 1. IBM

IBM's strategy in the mid-1990s transformed purchasing from a tactical focus to a strategic focus.¹⁵ Up until that time, IBM produced many of its end product components in a highly vertical organization, closely guarding information from suppliers about how its parts fit within its overall business strategies. Due to the need for secrecy, this lack of supply chain integration was typical within the computer industry during the 1970s. By the mid-1990s, however, several of IBM's competitors began reducing costs by outsourcing and integrating internal capabilities with those of suppliers. Old ways of doing business were preventing IBM from leveraging purchases, eliminating process waste, and capitalizing on innovative thinking.¹⁶

IBM's strategic approach reshaped the scattered collection of purchasing groups into a centralized structure.¹⁷ Centralizing its purchasing function led IBM to create 17 commodity councils to reduce costs and suppliers by leveraging corporate buying power. Combining requirements of all IBM's divisions and long-term negotiating contracts with suppliers yielded lower prices. The creation of commodity councils also enabled IBM to reduce production suppliers from 4,900 in 1993 to 50—representing 85 percent of IBM's \$17.1 billion production spend in 1999.¹⁸

Strategic sourcing was just one aspect of a larger strategic approach by IBM. Their leaders' vision and commitment to strategic intent, strategic thinking, and complementary actions brought the company to a new level.¹⁹

Example 2. Dell Computer

Dell implements a three-tier structure to manage the supply picture. The first and lowest tier focuses on commodities on a daily tactical level. The second level deals with execution and plans for component sourcing and replenishment; four times the amount of personnel work on this level than on the previous level. At the third (and highest) tier, six times the amount of personnel of the second tier deal with top suppliers.²⁰ In 1999, Tom Meredith, Dell's chief financial officer at the time, put the importance of expanding operations beyond the plant floor into the preceding tiers of the supply chain into perspective. He related that "customers see no advantage in a manufacturer lowering inventory to six days if 90 days are still in the supply line."²¹

Dell shares ordering information with suppliers once per month to help them make better ordering decisions.²² Information is a key enabler in managing the supply chain. This is due to a lack of integration or communication between supply chains. Dell's model places end users directly in contact with Dell, which eliminates the distributor tiers of

the supply chain. However, there is an added benefit to Dell and other large buyers by placing planned enterprisewide purchases. For instance, the U.S. Air Force's Information Technology Commodity Council aggregates otherwise tactical air force purchases into planned buys. This tactic benefits Dell's supply projections and supplier leverage while creating savings for the air force.

Example 3. John Deere & Company

In 1997, John Deere purchased from over 14,000 active suppliers, stemming from a massive move to outsourcing in the 1980s. Each business unit made its own decisions, which created a fragmented supply base. A year later, purchased goods and services represented 70 percent of manufactured cost of products. Therefore, implementing strategic sourcing became the number-one goal at John Deere.²³

Supplier development and supply base optimization became key strategies in this case. John Deere's strategic sourcing approach classified materials into four categories:

- Unique products,
- Critical products,
- Generics, and
- Commodities.

In 1999, John Deere's annual spend was \$7.1 billion. Divisional managers retained local buying authority for site-specific major components, which represented \$1.9 billion of the company's spend. John Deere divided the remaining spend across enterprise divisional teams, enterprise supply management teams, an indirect strategic sourcing team, and a logistics buying team.²⁴ John Deere illustrates the success of a strategic approach by organizing procurement to include enterprisewide effects through integration with corporate strategy by segmenting spend to categorically identify what the firm is purchasing. The next step John Deere took was to identify areas to leverage purchases for cost savings and opportunities for developing relationships with suppliers to increase quality.

Example 4. Fluor Corporation

Fluor uses strategic procurement to bring greater value to clients and to improve its competitive position. Fluor is one of the largest engineering, procurement, and construction firms in the world, operating in 25 countries across six continents. Procurement accounts for two-thirds to three-fourths of the firm's project spend, dictating the need for procurement as a core competency. Fluor describes a decentralized procurement

approach as “1,000 faces to the supply base.” Global sourcing and supply represents Fluor’s philosophy to integrate strategic and tactical functions across projects, geographies, industries, and business units. Fluor’s current model adopts research from a Construction Industry Institute study that identified significant cost savings by integrating procurement during initial engineering efforts. The resulting model is “Procurement, Engineering, procurement, and Construction” (PEpC).²⁵

Prior to PEpC, Fluor’s traditional process integrated procurement of critical materials and equipment following a project’s engineering work. Within PEpC, “Big P” Procurement focuses on strategic supplier involvement preceding engineering work. Fluor found that moving strategic purchasing (“Big P”) ahead of engineering and leaving nonstrategic purchasing (“small p”) after engineering, the company and clients could save between four and ten percent while achieving shorter lead times.²⁶

Fluor has four key beliefs that it believes are critical for achieving its goals and its focus on aggressive growth:²⁷

1. **Strategic Sourcing**—Fluor selects and manages relationships with proven suppliers that serve their businesses best. This drives price and nonprice benefits toward successful and profitable projects.
2. **Enterprise Spend Management**—Fluor emphasizes the understanding of supply markets. Enterprise spend management councils identify important information in order to capitalize on high potential savings.
3. **Supplier Diversity**—Fluor reaches out to suppliers, ensuring the suppliers’ information is accessible throughout Fluor’s organizations.
4. **Supplier Integration**—Fluor seeks to integrate suppliers’ core competencies into projects in order to benefit engineering. This reduces engineering effort, shortens cycle time, and lowers risk.

Fluor’s global sourcing and supply organization manages a \$10 billion annual spend. Over the past five years, Fluor’s supply base has been reduced from 30,000 suppliers to an approved bidders list of 2,000. This includes 150 strategic supplier agreements. One element of the firm’s focus is to eliminate the waste between Fluor and its suppliers by not only concentrating on Fluor’s supply chain, but also by concentrating on the supply chain of the suppliers themselves.²⁸

Firms’ market structures and strategies differ. Likewise, their strategic approaches to procurement also differ. However,

implementation is driven from the top leadership down. This starts with leaders’ commitment to integrate procurement and corporate strategy. The key is to find an approach consistent with the external structure and internal strategies that are flexible enough to respond in a dynamic environment.

DOD Applications

In May 2005, the Office of Management and Budget stressed the importance of agencies initiating strategic sourcing to maximize the value of an average \$300 billion spent on goods and services by the federal government each year.²⁹ As DOD adapts to current challenges, strategic decisions are made that affect what DOD will source externally rather than what it will provide internally. This provides the opportunity for successful acquisition approaches to new challenges facing DOD to improve cost and outcomes such as service and commodity acquisition.

A classic strategic approach DOD uses is to have system program offices integrate contract management with other functions—such as program management and engineering—under a project life cycle approach. This approach, called the Defense Acquisition Management Framework, views programs from concept refinement through disposal. Further, similar program offices cluster within specialized centers such as the Aeronautical Systems Center, which manages 420 aircraft programs within its portfolio.³⁰

The Government Accountability Office found that over the past decade, DOD is increasingly relying on service contractors to provide a wide range of services. Obligations on service contracts have risen 72 percent from 1996 to 2005 (from \$82.3 billion to \$141.2 billion respectively).³¹ An example of a strategic approach to services is the U.S. Air Force’s Acquisition Management Integration Center (AMIC). AMIC is a service program office. Program managers work side-by-side with contracting officers (COs), along with other functional expertise such as logistics, civil engineers, communications, and quality assurance. AMIC’s approach applies a large defense program management style to the acquisition of services.³²

The Defensewide Strategic Sourcing (DWSS) program office analyzes spend to more efficiently and effectively acquire services and commodities.³³ The theme for the acquisition of commodities is similar to services; leveraging buying power to obtain goods at better terms and conditions over the product life cycle.³⁴ DWSS uses a systematic approach to incorporate enterprise spend analysis, supplier relations development, demand management, and stakeholder requirements into the sourcing process.³⁵

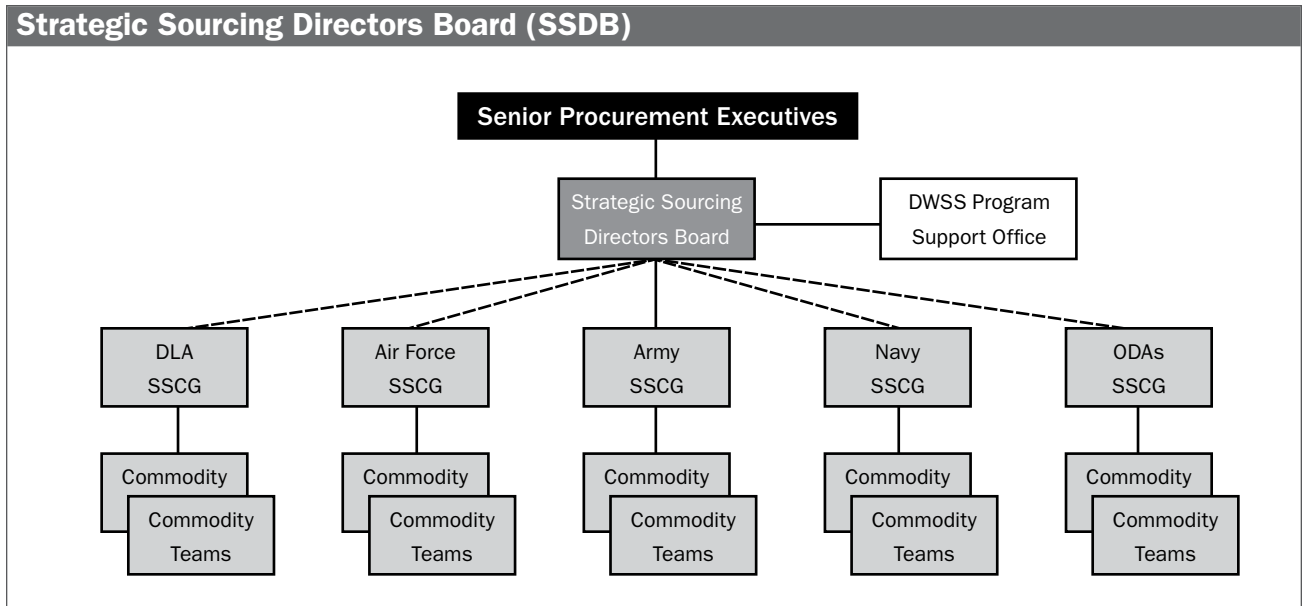


FIGURE 3.

FIGURE 3 above illustrates the Strategic Sourcing Directors Board (SSDB) as the strategic apex of DWSS initiatives. The assistant deputy under secretary of defense presides over the SSDB and is DOD's single point of contact for all federal strategic sourcing initiatives.³⁶ As shown in FIGURE 3, each component has a strategic sourcing coordination group (SSCG) to execute strategic sourcing initiatives within its respective components. The SSDB is made up of the SSCG leadership from each component. This structure facilitates strategic decision-making and administers the strategic sourcing program across DOD.³⁷

Summary

Corporate and military acknowledgment of the strategic importance of contract management stems from an increasing reliance on external capabilities in order to remain competitive. From this realization, leaders can centralize spend for an enterprisewide procurement organization to integrate within the overall company strategy. The procurement organization's focus should be able to develop sourcing strategies to realize the full potential of spend to influence cost and quality relative to overall strategic requirements. The procurement organization achieves this harmony by tailoring service and commodity strategies to commensurate with the importance of the product and complexity of the product market.

II. Contingency Contracting

A "contingency" is an emergency that involves military forces and stems from natural disasters, terrorism, subversions, or other forms events requiring the use of military operations.³⁸ The formal declaration of a contingency is a major event shaping the contracting environment. A declared contingency increases the responsive simplified acquisition threshold defined in the *Federal Acquisition Regulation (FAR)* from \$100,000 up to \$1 million outside the United States. Additionally, the use of simplified acquisition procedures (outlined in FAR Part 13) increases from \$5.5 million to \$11 million under a declared contingency.³⁹

The Defense Acquisition University defines contingency contracting as "direct support to tactical and operational forces engaging in the full spectrum of armed conflict and military operations other than war, both domestic and overseas."⁴⁰ Further, contingency contracting operations are segmented into four phases:⁴¹

1. **Mobilization/Initial Deployment**—Ideally, this phase runs for the first 30-45 days of a contingency. Extreme operation tempo, confusion, and controlled chaos characterize this initial stage. Establishment of units' priority of needs to support troop arrival is the contingency CO's number-one priority. These needs include food services, water, billeting, bath facilities, laundry, utilities, refuse and sanitation services, equipment rental, transportation, ground fuel, and interpreters and/or guides.⁴²

2. Buildup—Incoming troops will dictate the need for additional volumes of services. Assessing the flexibility of a contract’s responsiveness to meet basic life support and additional requirements such as heavy equipment, construction material, horizontal construction, office equipment and furniture, quality of life and morale, welfare, and recreation. In conjunction with these acquisitions, the CO becomes part of a contracting office that must focus on the following objectives prior to sustainment:

- Establishing command and control over local contracting and contracting support personnel,
- Establishing a reliable and responsive local vendor base, and
- Establishing flexible and efficient tools to meet common base requirements (such as blanket purchase agreements [BPAs]).⁴³

3. Sustainment—The local contracting framework will deepen from the prior stage to incorporate the following measures:

- Consolidation of requirements into long-term contracts, where possible, to achieve economies of scale, cost reduction, and mitigation of risk;
- Improved documentation and internal controls;
- Increased competition and vendor base from outside the local area; and
- Planning for transition toward termination and/or redeployment.⁴⁴

4. Termination and/or Redeployment—The purpose of this phase is either to redeploy or forward-deploy. The volume and scope of contracts revert back to the levels of the initial stage. Contracting will then have two main objectives: (1) procuring new requirements (such as packing, crating, and freighting services; construction; and any necessary transportation); and (2) terminating and closing out existing contracts and agreements.⁴⁵

During the eighteenth and nineteenth centuries, division of warfare along the waters’ edge meant that military forces could, for the most part, operate independently. World War I marked the last war of almost complete service autonomy as the introduction and incorporation of the airplane created an

overlap in capability and an interservice debate.⁴⁶ Defense reorganization came with the Unified Command Plan created during the 1940s, which placed geographic control of forces under geographic combatant commanders (COCOMs).⁴⁷

Over the past decade, geographic COCOMs are increasingly relying on contractors to meet many logistical and operational support needs during combat operations and other missions. Attributing to this are reductions in the size of the military, increases in the number and size of operations, and increasingly sophisticated weapon systems.⁴⁸ This presents a new twist to the functional versus geographic control debate as COCOMs do not have authority to enter contracts under Title 10 of United States Code (USC).

Individual services execute contracting authority within, and in support of, geographic COCOMs. **FIGURE 4** on the next page depicts U.S. Central Command’s (USCENTCOM) area of responsibility (AOR). The problem this fractionality creates is that no single contracting agency has oversight over all other agencies executing contracts in each country or across a geographic region. USCENTCOM identifies several operational effects stemming from this problem:

- Inaccurate and untimely situational awareness of contracting activities,
- Lack of ability to enforce commandwide contracting policies,
- Inability to achieve unity of contracting effort to support the warfighter, and
- Difficulty managing and directing contractor accountability and arming.⁴⁹

As previously discussed, in the event of a contingency, each military service provides contracting support for its involvement within an operation and within the larger region to provide support. This creates multiple contracting activities within a contingency theater and region, often resulting in the procurement of multiple or similar items. An independent commission charged with examining the health of U.S. Army expeditionary contracting echoed the sentiment of splintered authority from many ad-hoc players and many negative consequences such as failure to achieve economies of scale or competing for scarce resources.⁵⁰

Additionally, each service may not execute contract management consistent with the individual geographic COCOM’s regional strategy. The key is to merge the individual service’s contract support to a central activity and align contract management strategy with the COCOM’s regional strategy prior to the first stage of contingency. This illustrates the importance of establishing a new stage, “joint

USCENTCOM Area of Responsibility



ARCENT:

- Egypt
- Kuwait
- Lebanon
- Pakistan
- Tajikistan
- Turkmenistan
- Uzbekistan

NAVCENT:

- Bahrain
- Djibouti
- Eritrea
- Ethiopia
- Kenya
- Seychelles
- Yemen

AFCENT:

- Jordan
- Kyrgyzstan
- Oman
- Qatar
- Saudi Arabia
- UAE

JCC-I/A:

- Iraq
- Afghanistan

FIGURE 4.

geographic contract management strategy,” preceding the existing four stages. This stage uses existing supplier relationships and strategic contract management best practices.

The next three topics analyze recent contingency operations by investigating the current contracting support organization for Afghanistan and Iraq, called the Joint Contracting Command—Iraq/Afghanistan (JCC-I/A). The theme emphasizes the need for a central contract management agency within a contingency theater and the networking of existing suppliers within the larger geographic regions for the central activity to use in an initial planning stage and a subsequent initial deployment and buildup stage. After the initial stages, the central activities can focus on strategic objectives such as sourcing to stimulate local economies.

Operation Enduring Freedom (OEF)

In October 2001, when U.S. troops entered Afghanistan, their contracting support personnel were plagued with many of the same problems that their predecessors faced a decade earlier during Operation Desert Storm: a lack of a contracting organizational structure, inefficient resource allocation, and minimal training to the incoming contingency COs.

In the summer of 2004, there were five main military installations supporting OEF activities in Afghanistan:

1. Bagram Airfield,
2. Kabul Compound,
3. Kandahar Airfield,

4. Salerno, and
5. Karshi Khanabad (K2) in Uzbekistan.

In June 2004, one contingency CO in Bagram reported contracting offices at four of the five installations consisted of 23 contracting personnel supporting approximately 40,300 troops.⁵¹ Also, a review of OEF after action reports (AARs) revealed several additional problems. However, contingency COs were resourceful in their acquisitions. A company-grade officer in Kandahar leveraged the vendor base of other contingency COs throughout the USCENTCOM region in Karachi, Pakistan, and Seeb, Oman, to obtain essential supplies that were not readily available in Afghanistan.⁵² The AARs also mention the potential to employ the vendor base of Dubai. An approach such as this can be taken to a higher level and may provide a positive impact in terms of economies of scale. Centralizing similar requirements to one activity and decentralizing the ordering authority on a contract vehicle (such as a BPA) would make efficient use of an inadequately staffed contracting office.⁵³

Operation Iraqi Freedom (OIF)

When U.S. troops were deployed to Iraq in March 2003, there was no unity of effort with regard to contracting throughout Iraq, Afghanistan, or between the two countries. During the initial buildup phase of OIF, there were 24 military contingency COs operating independently of one another and supporting over 120,000 soldiers.⁵⁴ Similar to contingency COs involved in the support of OEF, those COs supporting OIF also produced valuable AARs. Two in particular, from Tallil Air Base and Balad Air Base, provided insight into the issues that contingency COs were facing after over a year into the operation.

In Talil, U.S. Army and U.S. Air Force contracting offices were collocated at the base but developed their vendor base independently from one another, typically competing for the same goods and services and duplicating their efforts. There was little communication and sharing of information between the two contracting organizations. Contingency COs stressed the need for consolidating requirements to their customers and prioritizing requirements to leadership. The army's office chief felt that his efforts to consolidate the two Tallil offices for economy of scale efficiencies, and to share vendor bases, "fell on deaf ears."⁵⁵

Establishing a joint contracting organization was one solution discussed by acquisition leadership. An AAR from a Balad CO opposed the joint command at that time, since the base was still in the buildup phase with a number of ongoing

high priority and critical projects yet to bring to the airfield for sustainment. However, since an army and air force contracting office existed at Balad, there was potential for a joint office during sustainment. Another challenge the Balad office encountered during the first few months of transition into the sustainment phase was a shortage of construction supplies from the local economy. The Balad air force office found itself sourcing critical buildup material from Kuwait and Qatar and heavy construction equipment from Iraq and Turkey due to the limitations of the local economy.⁵⁶

With little contract support personnel available in-theater, the need for coordination between COs became increasingly obvious. Once the operation began its transition into sustainment, the acquisition leadership pushed for a joint environment by establishing an acquisition plan that would span the entire AOR of Iraq. An essential element for an effective sustainment-based strategy was to create unity among the different contracting efforts in Iraq.⁵⁷ The task could have mitigated risks at the forefront of the planning process. The failure to define contracting and procurement roles and responsibilities resulted in a fragmented system that did not allow for the collaboration and coordination of contracting and procurement strategies.⁵⁸

The Evolution of JCC-I/A

Within a year of U.S. and allied troops setting foot in Iraq, the challenges faced by the contracting leadership were daunting. To meet these challenges, the concept of a Joint Contracting Command—Iraq (JCC-I) was introduced to support and sustain coalition forces, rebuild the Iraqi infrastructure, reduce Logistics Civilian Augmentation Program (LOGCAP) dependency,⁵⁹ and to provide an organizational structure to support theater contracting operations.⁶⁰ Over the next two years, USCENTCOM issued three fragmentary orders (FRAGOs) to unite and consolidate contracting efforts within OEF and OIF theaters.

USCENTCOM issued FRAGO 09-668 in November 2004, which created JCC-I as a major subordinate command of the Multi-National Forces—Iraq (MNF-I). The focus of the consolidation of contracting organization and reporting relationships was to create unity of effort in providing contracting support to leverage contracting resources and expertise for efficiency across the entire Iraqi theater.⁶¹ To facilitate contracting efficiency, the assistant secretary of the army (acquisition, logistics, and technology), having already been designated the DOD executive agent for contracting in Iraq, established the commander of JCC-I as the head of contracting activity (HCA) for Iraq reconstruction and contracting support for coalition forces. JCC-I was estab-

lished on January 29, 2005, and immediately set out to build the nascent command and to integrate itself as one of five major subordinate MNF-I commands.

In July 2005, USCENTCOM issued FRAGO 09-790, which rescinded FRAGO 09-668, in order to update contracting and organizational changes requested by USCENTCOM and executed by the U.S. Department of the Army. The purpose of this FRAGO was to unite contracting efforts in Iraq and Afghanistan—bringing contracting in Afghanistan under JCC-I HCA authority, thus creating JCC-I/A.⁶²

In November 2006, USCENTCOM issued FRAGO 09-1117, directing the commanders in Iraq and Afghanistan, along with the individual services, to update their contracting organizations and relationships within USCENTCOM's AOR to better achieve unity of effort in Iraq and Afghanistan.⁶³ FRAGO 09-1117 defined the end state for JCC-I/A that contained three significant objectives:

1. Integrate warfighter campaign plans and strategy in order to achieve outcomes through contracting that further support the warfighters' objectives;
2. Achieve unity of effort, including economies of scale that exemplify best business practices and serve as a model for commerce in Iraq and Afghanistan; and
3. Create synergy with economic activities in local private and public sectors, serving as a catalyst for economic growth in the resulting peace.⁶⁴

By networking contingency COs and suppliers across theaters, JCC-I/A vastly improved contingency contracting from past contingency operations. This organization can transform DOD's business practices into a contingency environment. Unity of effort is essential, and a shift to strategic thinking in terms of procurement has long-lasting effects.

In fiscal year 2006, JCC-I/A accomplished nearly 27,000 contractual actions valued at approximately \$5.7 billion. Moreover, 59 percent of the contractual actions, and 39 percent of the total dollars awarded, were awarded to "Host Nation" companies.⁶⁵ Contracting operations play a significant role in building the local and national economies, which is an essential element of the commander's strategy. JCC-I/A's focus of establishing a self-reliant Iraq is illustrated through close coordination with the Iraqi Ministry of Defense (MOD) and Ministry of Interior (MOI). The embedding of contracting advisors within the Iraqi MOD and MOI by JCC-I/A,

in order to build self-sufficient procurement systems and processes, is a key element that is necessary in order to reach the required end state.

Summary

JCC-I/A's continued success throughout USCENTCOM shows that it can serve as a model for future joint contingency operations of this magnitude. Planning for contingencies within the contingency contracting support plan (CCSP) must be incorporated early enough in an operation for acquisition professionals to assess the economic environment and market structures of the operational area in terms of vendor base and availability of goods and services. A CCSP ensures contracting receives proper attention within logistics plans and the larger operation plan. This analysis must not only assess the AORs, but also that of the entire geographic region in order to leverage key suppliers' capabilities during initial stages of operations. The focus then shifts toward building the local economy.

III. A Strategic Approach to Contingency Contracting

Corporations are profit-driven. Identifying opportunities to increase and capture product value equates to increasing the bottom line. DOD is not profit-driven in the same sense, however; DOD will most likely always have more needs than money to fund them. This assumption requires DOD to identify opportunities to capture more net value from products. The ways commercial firms gain competitive advantage are the same ways DOD can use to capture more net value from products in the marketplace. The first method DOD should use is to organize purchases to create efficiencies or organize economies of scale to lower cost, thus capturing more net value and cost savings without sacrificing a greater amount of product value or willingness-to-pay. Second, DOD should work with producers on opportunities in supply markets to favorably increase product value without a larger increase to cost.

The Contingency Acquisition Support Office

Ongoing operations in Iraq and Afghanistan—and the lessons learned from JCC-I/A—are formulating (in draft by the under secretary of defense for industrial policy) the development of the Contingency Acquisition Support Office (CASO). The proposal of the CASO consists of a multi-functional organization, similar to a program office, permanently located at U.S. Joint Forces Command (USJFCOM).

In the event of a contingency operation, small cadres of acquisition professionals will surge into the contingency theater of operations—forming a joint acquisition command much like JCC-I/A. The CASO will serve as the executive agent, under USJFCOM's Title 10 USC contracting authority to support the joint force commander within a declared contingency theater. The combination of “effective contracting and program management in a contingency environment are the channels through which DOD's allocation of national economic power flows to the responsible commander to enable his operational objectives and tactical assignments.”⁶⁶

The CASO is particularly important in acting as a strategic arm of the respective COCOM, which does not have Title 10 USC contracting authority, and currently relies on individual services' authority within a contingency theater and the larger geographic region to support ongoing operations. DOD's purchasing power as a whole is also a key strategic tool. For example, set-asides for small, underutilized, disabled veteran- and women-owned businesses are strategic public policy objectives. COCOMs need the ability to influence the quality and sustainability of strategic markets and key suppliers critical to DOD and its mission. For example, DOD's purchasing power can rebuild Iraq as a strategic objective, but can also interdict the supply markets within Iraq. This arrangement will play a vital role in ensuring the sustainability of the infrastructure. Not only is identifying strategic producers of finished products key to long-term stability, but the identification of the producers of commodities, assemblies, and subassemblies within the supply chain is also important.

However, with worldwide contingency theater responsibilities, the CASO may lack the vision to leverage valuable existing supplier relationships within the entire geographic area of the respective COCOM during the initial stages of a contingency operation. DOD has an opportunity to capture more value and supplement the CASO by integrating and harnessing the network of suppliers throughout geographical COCOM AORs.

Networking Geographic Suppliers

As commercial firms and DOD continue to eliminate noncore activities, the supply chain stretches and increases the importance of integrating key suppliers. DOD can benefit by developing and networking business relationships further back in the supply chain with those suppliers that possess the competitive advantage within their respective market. The foundation for achieving these objectives is information—acquisition information held by individual services' tactical offices throughout a region. JCC-I/A, for example, is

successful at capturing information on contract actions within its theaters, but this communication needs to be taken to a larger level.

The need for information technology and e-business tools to support expeditionary forces is one of four findings of an independent commission investigating the status of army expeditionary contracting. While the findings specifically address contract writing tools, the general theme of the report stresses the increasing dependence of contractors in expeditionary operations, the need to meet requirements effectively and efficiently, and the increasing importance of contracting personnel in expeditionary operations.⁶⁷

Developing an acquisition information system will give geographic command areas the ability to integrate and coordinate the essential acquisition information from all contracting organizations throughout their respective AORs. This information allows geographic command areas to conduct spend analyses to better understand what is actually being procured in their respective areas and what suppliers are the key players. A strategic contract management framework consisting of strategic sourcing, sourcing strategies, and commodity strategies will efficiently and effectively employ scarce DOD resources on the most widespread opportunities to leverage spend.

First, strategic sourcing will focus personnel on widespread requirements, market knowledge, and supply base management to purchase more efficiently and develop relationships with key suppliers. Second, classifying goods and services according to their level of strategic importance and market complexity using Kraljic's portfolio model (see FIGURE 2 on page 37) creates broad sourcing categories.⁶⁸ Third, commodity strategies will identify key suppliers of goods and services that provide DOD with the best value. A joint contracting organization during contingency operations, such as CASO, could leverage these existing supplier relationships during all phases of an operation.

Knowledge of the aggregate demand for an entire AOR is powerful negotiation information for DOD. Suppliers will most likely be more open to lower prices if they share the strategic view of DOD's demand. An increased awareness of DOD's theaterwide demand would also give the product producer better bargaining power within its own supply chains (similar to the Dell example described earlier). Additionally, by dealing with the primary suppliers, DOD would be positioned to potentially increase the value gained from certain goods and services while minimally increasing cost. Most importantly, the geographic supply base is mapped to plan contingency operations and to rapidly employ the best suppliers using scarce monetary and personnel resources.

Conclusion

A strategic approach to contingency contracting places two fingers on the pulse of regional supply markets. The beat of the pulse identifies opportunities for DOD to craft commodity strategies that favorably reduce cost as a function of value and/or favorably increase value as a function of cost. In the commercial sector, this creates a competitive advantage. Also, two actions were described previously in this article for DOD to implement a strategic approach to procurement not only in a contingency theater, but within a geographic theater as well.

An organization like CASO must control contracting activities within a contingency theater. CASO would be the first DOD organization to network with other government and nongovernment agencies in order to properly and productively prepare acquisition operations for any future contingency.⁶⁹ Secondly, an acquisition information system will allow geographic command areas to conduct spend analyses to integrate the services' network of supply chains with a geographical area, thus identifying areas in which more value can be captured. The areas providing the most widespread opportunities to capture value and to integrate key suppliers are the starting points for strategic sourcing, sourcing strategies, and commodity strategies.

The geographic command areas do not need to control the services' entire acquisition process to support the contingency theater. The acquisition information simply needs to aggregate at a central point to identify opportunities for DOD to capture more value and achieve regional strategic objectives. This geographic supply network will provide a supply base for CASO to pull supplies and services into the contingency theater. As needed, CASO can shift from geographic suppliers to local suppliers. *JCM*

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