

# Driving Defence Logistics Productivity Through Predictive Insights

Delivering Public Service for the Future

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High performance. Delivered.

It's a new world for defense organizations around the globe—one in which, more than ever, cost reigns. The rapid advances in defense technology come at a cost that stretches even the most generous of defense budgets. In an April 2012 speech on "Smart Defense," the NATO Parliamentary Assembly Secretary General described how "a front-line combat aircraft of the Second World War would cost around US\$50,000. In the mid 1980s, the cost would be several tens of millions of dollars, and today's fighters cost between one and two hundred million dollars."<sup>1</sup> The dilemma is a world of desirable military options—mostly out of practical reach.

Meanwhile, enduring fiscal pressures have significant and long-term implications for securing nations. A September 2012 Reuters article describes European defense at a critical point, and quotes General Hakan Syren, chair of the EU's Military Committee, as saying, "The military capabilities of the EU member states are on a steady downward slope," as a result of rising costs, inefficiencies and budget cuts.<sup>2</sup> Military budgets are constricting: in the United States, cuts of US\$487 billion from the Department of Defense budget between 2012–21<sup>3</sup> have been agreed. The United Kingdom and Germany have already cut military spending by around 5 percent and plan to implement further cuts over the course of the next several years.<sup>4</sup> In Australia, the Department of Defence's Strategic Reform Program is targeting AU\$20 billion (approximately US\$20.7 billion) in cost reductions on the way to building "a more muscular, hard-hitting force."<sup>5</sup>

The changing defense environment brings into sharp relief the need for defense organizations to shift their response—namely to shift the ratio of the positive outcomes they can achieve from the money available to achieve them. Optimizing efficiency and effectiveness have significant implications for militaries required to do more than ever with less.

In its recent report, *Delivering Public Service for the Future: Navigating the Shifts*,<sup>6</sup> Accenture research highlighted the criticality of governments making fundamental structural shifts in the way they approach public service design and delivery. Among the shifts highlighted, we believe the concepts of shifting from being reactive to insight-driven and then using that insight to drive mission productivity have particular relevance for defense organizations grappling with how to do more with less.

Although insight has long been a critical capability for defense, in a more complex, connected and digital world there will be a growing explosion of information, as well as ever-more advanced ways of capturing and analyzing this information. Certainly becoming insight-driven will mean being able to put more relevant information into the hands of the warfighter on the ground, but insight-driven has another, broader meaning for operational support as well. Better insight will not only enable smarter, more proactive approaches to mitigating security threats, but also will allow for closer collaboration between defense organizations and industry to help drive down sustainment costs whilst improving operational effectiveness and outcomes.

How will it work? To begin, defense organizations have masses of data available. Tying that data together, and applying sophisticated statistical measures, can enable predictive analytics for supply chain management. For example, predictive analytics can optimize demand forecasting—helping improve the picture of what will be needed when, and where, and then allowing defense organizations to plan inventory accordingly—to ensure the lowest possible inventory level that will still (above all) ensure the right level of service.

Or defense organizations can use spend analytics to drive unnecessary costs out of the supply chain—in other words, generating the insight into where and why failures occur in the supply chain and which of those failures drive the most financial and operational costs. Armed with that insight, industry can then collaborate with defense to make step-changes in how both the mission and support systems operate and perform, targeting design and support system changes that have the biggest impact.

In fact, insight-driven decision-making has been at the heart of the effective approach the United States has been taking within its Defense Logistics Agency for years to boost supply material availability and lower

customer wait times while lowering cost recovery rates. The agency reduced costs from 24.7 percent to less than 14 percent in ten years and sales and services grew by 70 percent, even as the workforce shrank to its lowest level since 1963.<sup>7</sup> Working from insight-driven decision-making, DLA has been able to effect transformational changes on both the cost and outcome side of productivity.

As another example, weapons systems often cost hundreds of millions to purchase, yet that purchase price usually accounts for just a fraction of the costs of maintaining over the lifecycle. Starting from data-driven insight, industry and defense organizations may collaborate to minimize 'whole-of-life' costs through improved reliability engineering from the start, identifying disproportionately high cost-drivers in maintenance and redesigning systems and processes to optimize performance. And predictive asset maintenance can improve up-time, performance and availability of military assets by predicting when maintenance or when a new part will be required in advance of mechanical failure.

Ultimately, becoming insight-driven lifts a defense organization from being reactive to being ready in all spheres. It illuminates the path to full-fledged mission productivity by giving the

information defense organizations need to take a critical look at every investment—in weapons and materiel, but also in time and effort—and whether or not it supports the achievement of desired outcomes. Efficiency has always been about, "How do we do something better?" Mission productivity implies being open to doing things not just differently, but perhaps entirely differently to improve outcomes and save costs.

For too long, not only in defense but also in agencies across government (and in the private sector as well), people have mistakenly equated keeping busy with productivity. Now, long-lasting fiscal realities are forcing militaries to really focus on their core competencies, and they will increasingly look to data-based, insight-driven performance management<sup>8</sup> and performance budgeting to achieve more with less. Without a doubt, as agility and speed increasingly define a strong defense force, defense agencies will have to become increasingly streamlined. In all aspects of defense operations, the question "what is mission critical?" will predominate. The answers will come from defense organizations getting the right data and then using that data to inform all decisions—so they can be confident that what they are doing really does align with mission priorities.

## References

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- 4 Stockholm International Peace research Institute April 2012: Background paper on SIPRI military expenditure data
- 5 <http://www.defence.gov.au/SRP/>
- 6 <http://www.accenture.com/us-en/Pages/insight-delivering-public-service-future-navigating-shifts.aspx>
- 7 Neal, Jeffrey. "An 'A' for Austerity," February 1, 2012. [www.govexec.com](http://www.govexec.com) and <http://www.dla.mil/Loglines/Pages/LoglinesND2011Department01.aspx>
- 8 The all-important human capital issue will be the subject an upcoming instalment of Accenture's *Delivering Public Service for the Future* program.

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