

Are the Armed Forces Game for 3PL?

Venu Gopal

Colonel Venu Gopal is Research Fellow at the Institute for Defence Studies and Analyses, New Delhi

September 17, 2012



Summary

Third Party Logistics, another term for 'outsourcing' has been accepted as an important component of modern commercial, economic and management practices. Keeping in mind the cost effectiveness, long-term economic benefits, extensive resources, expertise and quality of services that outsourcing can provide, it would be prudent if the armed forces start delegating their non-core requirements to such service providers. The Government of India has agreed in principle to the outsourcing of certain services, and modalities for the same have been worked out. However, 3PL support has not become integral to the defence forces' administrative functions yet. Considering the funds that can be saved, manpower that can be freed to train for operational readiness, the adept, proficient and skilful resources that can be used to upgrade its standards and capabilities, the armed forces should not to drag their feet in this important issue.

Introduction

Third Party Logistics or 3PL is another term for outsourcing. It is outsourcing all or much of a company's logistics operations or non-core operations to a specialised agency. First used in the early 1970s, the term 3PL was used to identify Inter-modal Marketing Companies (IMC) in transporting contracts.¹ Initially, those companies went for outsourcing that needed to cut down on their assets or wanted to outshine their rivals or competitors. Today the client may be any company that sees benefit in delegation of its non-core functions to other specialised groups. Think of the term outsourcing and the first picture that comes to mind is that of call centers and BPOs. In fact, India continues to be associated most often with such operations as far as outsourcing is concerned. Traditionally, 3PL focused on specific functions such as transportation, warehousing etc within the supply chain. Slowly but surely, Informative Practices, Information Technology and Legal Services have also gained popular currency in the outsourcing field. As the basic functions have become commoditised, the base range and services for 3PL have expanded significantly.

If one delves deep into history, one comes face to face with the surprising fact that the armed forces pioneered the concept of outsourcing. Military history dating back to the feudal system and beyond is witness to the fact that soldiers and fighters were sourced from outside by emperors or kings – especially from local or regional lords and chiefs.

The Requisite Agendum

In layman terms, outsourcing can be explained as functions, materials, products and allied services that a company may be capable of doing on its own but would rather purchase from others because of substantial benefits. For this purchase, an apt source has to be selected. A whole set of processes are involved in the selection of the source. To begin with, there has to be an in-depth assessment, comparative studies, and performance rating of the suppliers in the concerned field. Quality, reliability, viability, co-coordinating capability and equally important, pricing, are some of the dimensions that have to be covered during the assessment of prospective suppliers. Once selected, a comprehensive contract that covers the supply chain performance, increases the supply chain surplus, safeguards the legitimate interests of the vendor/supplier as well as the buyer, has to be negotiated and drawn up. An in-depth analysis has to be conducted to identify opportunities for cost cutting or minimising expenditure. Since the cost of the product is affected right from the design stage, collaborations between the suppliers and the buyer

¹ Based on Study by Chopra & Meindl, Literature of ICFA and study at Kellogg's under supervision of Chopra

should be planned with efficient co-ordination and communication right from the designing till the manufacturing of the final product. While planning or designing the entire strategy for outsourcing, identifying and prioritising the targets to be achieved as well as the factors that influence the fulfillment of these targets, are of utmost importance.

Military Outsourcing

As per the Fifth Annual Outsourcing Index, compiled by the Outsourcing Institutes, the top three reasons for commercial companies to outsource are:

- improving company focus,
- reducing and controlling operating cost, and
- making free in-house resources for other useful purposes, in tune with the core functioning of the company.

These reasons hold well for the armed forces as well.

The leading countries utilising outsourcing services are the US (considered one of the pioneers in this area), Britain, New Zealand, Israel, Australia, Canada, France and many more. There are, in fact, more than 150 companies offering their services in over 50 countries across the world. Many countries have chosen the American concept of military outsourcing and are focusing on redefining and maintaining non-core activities by outsourcing to private military companies. This has proved to be a highly cost-effective option. By outsourcing day-to-day administrative tasks, countries have laid claims to having made savings of 15 to 40 per cent on their expenditure. Since defence budgets are limited in almost all countries, it is an accepted fact that the forces must look towards avenues, which get the best value for limited resources and at reduced costs. The resource crunch and ever-depleting allocation of funds to the armed forces has led to the acceptance of Third Party Logistics or 3PL as an important tool.

The expanding role of the private industry in the US military services can be seen in the change of ratio between military personnel and contract workers. Military manpower reductions, governmental push to privatise extant military functions, increasing reliance on contractors for maintenance of sophisticated state of the art weapon systems and mandated troop ceilings are some of the pivotal factors for the US outsourcing policy. The US statute requires the US army to 'use' the least expensive form of personnel (cooks, drivers, mechanics, plumbers et al) consistent with military requirements and other user needs of the Department of Defence, vide instruction no 3020.37, 'The DoD components shall rely on the most effective mix of the total force, cost and other factors considered, including active, reserve, civilian, host nation, and contract resources necessary to fulfill assigned peacetime and wartime mission'.

The British Ministry of Defence has opted for competitive bidding under its 'Competing for Quality' policy for all non-core functions of its armed forces. They have a policy of open competition where efficiency and economics are the main criteria. Britain, having taken over as a leader in outsourcing, supports the 'Contractors on Deployed Operations' (CONDO) policy and the 'Public Private Partnership' (PPP) programme.

The New Zealand Defence Forces have used 3PL support for logistics, plant maintenance, electronic mail and procurement of clothing among others. The New Zealand government claims to have saved, through 3PL, approximately 8.5 per cent of their total spending². In addition, their outsourced IT systems support everything – purchasing uniforms, supply, and ammunition, managing facilities like dry docks, rifle ranges, bulk stores and even military housing numbering more than 2500 units³.

The Israel Defence Forces have outsourced their visual intelligence services for carrying out missions for field security. Their decision to outsource the primary health care services and hospitalisation of soldiers have resulted in a high grade of satisfaction among soldiers in terms of attitude, facilities, quality, availability and accessibility of medical care.⁴

General Henri Bentegeat, head of the European Union's Military Committee believes that countries that are a part of the European security, and defence policy missions in other countries should take into consideration hiring of third parties to handle their logistics tasks. Speaking at the European Defence Agency's Conference on outsourcing logistics he opined that there would always be a need to outsource in multinational operations because member states never commit the whole chain of logistics.⁵

Relevance of 3PL for the Indian Army

Though there is global military redundancy, it is a fact that there is a significant rise in conflicts, which temporarily may seem localised or regional, but have extensive global implications. India today has a major strategic role to play in keeping world peace. At the same time, the state of the regional strategic environment demands that the armed forces of the country should maintain a state of operational readiness. In this regard, keeping in mind the rapid expansion and hi-tech quality of modern warfare, sophisticated weapons,

² J. Woon Leanne, "New Zealand Defence-How Does It Stack Up?" *Army Logistician*, March-April, 2004

³ Michael Palairet, Manager of SAP Support Group, New Zealand Defence Forces

⁴ "Outsourcing Primary Medical Care in Israeli Defence Forces", available online since October 19, 2005 at <http://www.sciencedirect.com/science?-ob=ArticleURL&-udi=B6V8X-4HC76VR-1&-us>

⁵ E.U. Mulls, "Increasing Outsourcing for Logistics", available at <http://www.Defencenews.m/story.php?i=EUR&s=ALL>

high maintenance instruments and equipment, and advanced capabilities, India requires requisite integrated technologies and specific skills. The investment requirements to procure these technologies and develop the skills to meet these new expectations are too huge, given India's limited means and restricted budgetary allocation. Here exists a moot point to explore the feasibility of outsourcing non-core operations, non-core competencies, and routine administration. Outsourcing will help optimise defence expenditure, improve routine productivity and day-to-day efficiency, concentrate on core-competency, i.e., ensure operational readiness, save human resource and quantifiably reduce resource liability.

In June 2007, the Government of India agreed in principle to allow outsourcing of essential services of the armed forces on a case-to-case basis, for which the services would need to address related security concerns. Modalities for the same have since been discussed, framed and formulated in the Defence Procurement Manual 2009 (DPM 2009) and Rule 178-184 of the General Financial Regulations 2005 (GFR 2005). However, it was only in July 2009 that Operation Logistics Directorate, Integrated Headquarters of Ministry of Defence (Army) was designated as the nodal directorate to oversee the outsourcing requirements for the Indian Army.

Apt Cases for Outsourcing for the Defence Forces

Taking a pragmatic view of all non-core functions, their scope should be studied in depth, their effect and worth should be evaluated, their cost effectiveness ascertained along with the configuration of the availability of competent service providers. Such gainful outsourceable functions can be:

- **Repair/Maintenance/Overhaul of In-Service Equipment/Vehicles through trade**

The repair, maintenance, and overhaul of in-service equipment/vehicles is the responsibility of the Army's Corps of Electrical and Mechanical Engineers (EME), who incur huge cost, and considerable resources are spent on training technical personnel, incurring huge inventory holding costs thereby further depleting the limited resource allocated to the army. Therefore, outsourcing maintenance, repair and overhauling of indigenous origin vehicles/equipment to Original Equipment Manufacturing (OEM), is a highly preferred option.

- **Clothing Items**

The provisioning of clothing and general stores, as required by the army, is the responsibility of the Army Ordnances Corps. However, it is the Ordnance Factories that provide the complete range of clothing items, resulting in a situation wherein the army has literally become "Captive Customers" of the Ordnance Factories, as they are the only agency required to manufacture and provide the requirements as projected by the army. This not only results in quality concerns but is also seen as a big drain on the allocated budget as rates quoted by the factories are always on the higher side. Hence, to improve

the quality and to be cost effective, there is an urgent need to outsource the clothing requirements for the Indian Army to more competent and competitive suppliers.

- **Tyres, Tubes and Batteries**

Tyres, tubes and batteries, as required by the army, can be outsourced from the OEM directly, because these are easily available in the open market, being civil end-usable items, ensuring good quality and cost effectiveness as these will be transported to the final stocking echelon (destination), by the OEM, reducing the overall Inventory Carrying Cost.

- **Dry Cleaning Plants**

Dry Cleaning Plants are established in specific sectors for washing and cleaning Special and Extreme Cold Clothing items. These plants are not located at all places and hence units are required to carry the clothing items to the nominated places for dry cleaning purposes. This problem can be overcome by outsourcing dry cleaning under the aegis of the local formation headquarters.

- **Catering Services: Training Establishments**

The Indian Army has Category "A/B" training establishments that impart training to all personnel of the army. As the strength of these institutes is substantial, the requirement of day to day catering in these institutes can be outsourced, of course with the military decorum continued to be maintained, albeit with skeleton staff, thereby permitting the troops to concentrate on their primary task, i.e. in this case training, disburdened from sundry services.

- **Building and Maintenance**

The responsibility for constructing and maintaining all types of buildings, roads, bridges, waterworks, electric supply and infrastructure, and other services, lies with the Military Engineering Services. Construction of buildings, roads and other infrastructure and their maintenance can be outsourced to established companies. The Married Accommodation Project is one such initiative. Consequent to the promise made to the Indian Armed Forces by the Government of India, the Married Accommodation Project, or MAP, was initiated to construct married accommodation for the three services, with a view to removing over a period of time the complete deficiency of married accommodation for service personnel of the Indian Armed Forces. However, this project is still on a trial basis and flaws, if any, will take time to surface. With genuine feedback and assessment, similar projects can be allotted to private builders.

- **Training Facilities**

Independent defence establishments catering to the training needs for imparting technical skills to armed forces personnel require immense expenditure, extensive resources and

manpower. Such training can be outsourced. IT training can be outsourced to the excellent civilian IT centers that India boasts of. Technical trade training can be taken care of by Industrial Training Institutes and Polytechnics. Driving skills can be imparted by driving schools in a much shorter but more satisfactory manner. Development of software for various applications would be much faster and up to date if outsourced, given the competence and prowess of the Indian IT sector.

Conclusion

A competent, operationally ready, and war-worthy army has to be on its toes to maintain its combat ability. The very purpose of a standing army is to be able to tackle its adversary successfully by honing up its fighting proficiency continuously. To achieve this, the forces must have enough resources, manpower, facilities and support. 3PL is a prudent and cost effective way of freeing the armed forces of the shackles of routine administrative functions. It is only sagacious that the forces engage better-equipped civilian service providers who are experts in their respective fields instead of indulging in wasteful expenditure, unnecessary duplication and time and resource consuming exercises, which at the end of the day, do not deliver the desired results. Outsourcing has been accepted as a pillar of modern management and economic practice. With regular monitoring, open communication, transparency and detailed feedback, outsourcing can help the Indian Armed forces increase their efficiency.