

Just the ticket

DND finds contractor to deliver supply chain

by Richard Bray

Sometime this fall, Treasury Board ministers will pass judgment on Department of National Defence (DND) plans to turn over its materiel warehousing and distribution functions to Mission Logistics (www.missionlogistics.ca), a private firm based in Canada and owned by Tibbett & Britten Group (www.tibbett-britten.com) in the United Kingdom.

The “static” or non-combat supply system of the Canadian Forces is a \$300 million dollar a year business, with almost 1,700 civilian employees and 2,900 military personnel working in depots, warehouses, bases and other installations across Canada.

At the end of August 2001, after several years of planning and consultation with industry, DND announced it had awarded a \$5 million contract for start-up work on its Supply Chain Project to Tibbett & Britten Group Canada Inc.

The project was described as “... an Alternative Service Delivery initiative, designed to re-think the way DND does business in order to focus scarce resources on core military capabilities.”

In the spring of 2002, the 12,000-member Union of National Defence Employees (UNDE, www.unde-uedn.com) launched a TV ad campaign aimed at stopping what it considers an ill-advised and poorly-timed experiment in outsourcing.

According to both Emperor Napoleon who said, “An army marches on its stomach,” and UNDE National President John MacLennan, logistics is a core function.

“If you take the depot in Montreal, and that’s a mega-sized warehouse and if they try to service ValCartier, Bagotville, Petawawa, Trenton, Kingston and Toronto out of that one depot, well, now you’re interrupting national security,” MacLennan said. Taking the ice storm of 1998 as an example, he said, “All the warehouses in eastern Canada or eastern Ontario were actively involved, including the depot in Montreal, in getting generators out to the public, tents, and all the equipment.”

In the event of war or natural disaster, he said, one central depot could easily be knocked out.

Cutting out the supply function, he said, begs the question, “What kind of department are you going to have left, if anything happens? Take the GTS Katie as one example. It’s a good thing that equipment was coming back home. If it was going abroad, there would have been some troops sitting there for 30 or 60 days without their equipment.”

Capt. (Navy) Yvon De Blois manages the project for DND. For the last year, he has been working with personnel from Mission Logistics, DND and other government departments to develop the Phase I deliverables that Treasury Board ministers will use to decide whether the project should go ahead. As defined by the Request for Proposal, the deliverables include a refined business case, implementation and transition plans and a framework for subsequent phases, including mechanisms for ending the contract. As things stood in the summer of 2002, Mission Logis-

tary needs fuel for its ships, tanks and planes, but leaves it to private industry to drill the oil wells and operate the refineries.

In the case of the Supply Chain Project, he said, “The contractor is being asked to operate our warehouses and distribution systems. He is not being asked to buy our materiel. He is being asked to operate the warehouses where it is being stored and to distribute it, to make sure that the right item gets to the right place at the right time, in the right condition. And that is exactly what these types of companies deliver to their private sector customers.”

Certainly, nobody questions Tibbett & Britten’s expertise in logistics. With customers like Wal-Mart, 7-Eleven and Safeway, the company has demonstrated world-class expertise in warehousing and distribution.

If the government decides to place the supply system in Tibbett & Britten’s hands, civilian employees will be guaranteed employment for seven years, with the first two years at their present location. Military personnel would be embedded within Tibbett & Britten’s

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tics was in line for a seven-year contract, with two two-year extension periods.

Interviewed at Mission Logistics’ anonymous, one-story building in a west end Ottawa industrial park, De Blois said outsourcing the non-combat supply system will not impair the Canadian Forces’ ability to fulfill their mission.

“The differentiator is between core and essential. It certainly is an essential business,” he said. “There’s no way you can go into combat without a supply chain – food for your troops, fuel for your planes and ships and tanks – and yet some of these commodities and services we regularly get from the private sector.” De Blois pointed out that the mili-

operations, carrying out their duties in coordination with civilians. The company and its military partner have devoted a great deal of time and energy to designing a package that is fair to affected employees.

As De Blois explained, “In this business, which is part of the service sector, a good rule of thumb is that 75 percent of your costs are basically labour costs and that is certainly true for us. In fact our business case identifies 80 percent of the cost being the salaries and wages of the people who day to day do this business.” DND, he said, will achieve significant savings, in part by reducing the wage envelope, through innovation and efficiencies.

“The issues associated there are essentially to put some of the best practices of the private sector right alongside the best practices of DND because we are certainly not suggesting that we are terrible at doing this,” he explained. “We do some things right and we know our business in terms of knowing our customers and so on, and so it’s not a question of taking all that and throwing it out and bringing in a new work force and saying ‘boy, can we solve your problems’, because we really want to marry both sides of this thing.”

The Supply Chain Project uses the Benefit Driven Procurement (BDP) process, which means selecting the company with highest probability of success rather than the lowest bidder, a model that can attract the wrath of losing companies, who have the right to take formal complaints to the Canadian International Trade Tribunal. There were extensive consultations with industry to design a process that bidders could accept in advance, and a fairness monitor was hired to ensure a level playing field.

De Blois said convincing Treasury Board ministers to accept the Supply Chain Project as a BDP initiative was a tough sell. As he said, “It is new in government, but again it really depends on how robust your business case is to justify doing that. We had a competitive process to select a contractor with the highest probability of success, and it was the Tibbitt & Britten Group.”

For his part, UNDE’s John MacLennan believes DND must reevaluate outsourcing the supply chain, saying circumstances have changed since the September 11, 2001 terrorist attack on the World Trade Center in New York.

“The business case for this, the cost analysis, is now stale-dated because it was done in 1999,” he said. “We’re saying, ‘why are they doing it?’ We don’t know. There is no clear identification of savings.”

Along with many inside and the military community, MacLennan is looking forward to reviewing the detailed plans that will be coming out of the Integrated Project Team this fall, for answers to his questions. *~*

Richard Bray is an Ottawa-based freelance writer specializing in the IT sector. He has been published in magazines and newspapers in Australia, the US and Canada. Before freelancing, he worked as a producer, reporter and senior writer for CBC in Toronto.

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