

SUPPLY AND COMMAND

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IF YOU READ the business press, it's easy to get the impression that the civilian and military worlds are perfectly analogous. In their daily work, CEOs plan "strategies," COOs execute "tactics," and market researchers collect "intelligence." Weak firms are vulnerable to "hostile takeovers," and "guerrilla marketing" was last decade's hot trend. Sun Tzu's "The Art of War" is a perennial presence on the business shelves.

Yet as the recent news from Iraq attests, the intersection of business and the military is more than metaphorical. Outsourcing has become not just a domestic but a foreign policy issue, as controversy swirls around the Pentagon's dependence on private security firms whose approximately 20,000 employees effectively form the second-largest armed contingent in the US-led coalition. Increasingly, private contractors have become targets of insurgent attacks: The four Americans killed and mutilated in Fallujah earlier this month were employed by the security firm Blackwater USA, and attacks on civilian convoy drivers working for Halliburton contributed to the coalition authority's decision to close major portions of the highways leading into Baghdad. For all the dangers, however, the American military's embrace of private business is unlikely to slacken any time soon, particularly in the critical area of logistics - the unglamorous but all-important job of getting the right materials and supplies to the right people at the right time. The military has been learning from the corporate world and applying business technology and practices to its own logistics challenges for many years now. While the benefits have been real, recent experience in Iraq raises the question of whether this military-business convergence is reaching its practical limits.

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Today, William "Gus" Pagonis, senior vice president for Supply Chain for Sears, Roebuck & Company, is responsible for Sears' logistics functions. But back in 1991, he was Commanding General of the 22d Support Command, responsible for all logistical operations during the Gulf War. "My transition from the military to Sears was a piece of cake," he says. "Instead of moving ammo, I move dresses."

Pagonis, who wrote "Moving Mountains: Lessons in Leadership and Logistics from the Gulf War" (1992), is emphatic on the parallels between civilian and military logistics. "There's a 100 percent overlap, in my personal opinion," he says. "A soldier carrying a rifle has to kill the enemy, and he's your customer. Everyone else is supporting that person - the guys that buy the rifles, buy the uniforms, fly the planes. In the civilian world, the consumer is the center, and everything else is based around that."

The two worlds began to converge in business schools as much as 40 years ago. "In 1964, I taught the first course at Penn State ever called Business Logistics," says John Coyle, emeritus professor of Supply Chain and Information Systems at Penn State's Smeal

College of Business. "I borrowed a lot of stuff from military logistics, because I thought the military was ahead of the private sector at that time."

These days, knowledge generally flows in the other direction. Penn State, like many other universities, regularly enrolls military officers in its business logistics courses. And the effects show, starting at the level of jargon.

"Our value to the warfighter resides in our ability to deliver capability and sustainment on time and ensure that we can provide timely accurate in-transit visibility and total asset visibility of all surface equipment and supplies at all times," wrote Major General Ann Dunwoody, commander of the military's Surface Deployment and Distribution Command, in a recent issue of *Translog* ("The Distribution Magazine of the U.S. Army"). Try to imagine Patton speaking those lines.

The Pentagon itself encourages this embrace of business thinking. In addition to his post at Sears, for example, Pagonis is chairman of the Defense Business Board, a group of high-ranking executives (including *US News & World Report* publisher Mort Zuckerman and Denis Bovin, vice chairman for investment banking at Bear Stearns & Co.) that advises Defense Secretary Donald Rumsfeld on the military application of industry "best practices."

The Department of Defense is pushing particularly hard to adopt off-the-shelf logistics software, adapting commercial products for use in everything from naval maintenance and supplies to tracking shipments to the combat zone in Iraq. At the Pentagon, as Penn State's Coyle points out, enterprise resource planning software and even auction systems are being explored to help make procurement more efficient.

Similar logic applies to the more controversial practice of outsourcing. As in the commercial sector, Coyle explains, the military is asking itself, "What is our core competency? What is it that we do best? We used to use low-ranking soldiers to clean latrines. Should we? . . . What things can we buy from someone else, to allow us to be more effective at our primary objective?"

Military transport, warehousing, and technical systems support are already heavily outsourced. And the 2005 defense budget calls for a further "conversion" of 10,700 military jobs this year, primarily administrative jobs which would be turned over to civilian employees or contracted out. According to the magazine *Government Executive*, the defense department ultimately plans to cut as many as 300,000 military support jobs from its ranks.

As in any organization with finite resources, every additional person on the military's payroll comes with a host of financial and legal commitments. "The Department of Defense has the same problem that General Motors has: built-up pension liabilities," says Ann Grackin, CEO of ChainLink Research, a consulting firm in Cambridge. According to the Congressional Budget Office, downsizing the armed forces since the late 1980s has helped the department cut its retirement fund payments in half, down to \$12 billion a year in 2002.

Yet while the bottom-line pressures felt at the Pentagon may be similar to those at GM, the military can't speak the plain language of corporate cost-cutting. "You never talk about `cheaper,'" says Grackin. "It's all about `service levels,' about `supporting the warfighter.'"

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Civilian logistics today is a well-oiled and finely tuned machine. Consumer demand is forecasted using months or years of statistical data, and manufacturers use "just-in-time" delivery to minimize inventory costs. In general, business can rely on some certainties. Says ChainLink's Grackin, "The supplier ships to the warehouse, the warehouse ships to the store. The locations are fixed."

But war, by its very nature, is about uncertainty. Though back-end supply lines - the ones running from the United States to the theater of operations - may be fixed, once in-country this can become a liability. After all, says Grackin, "the enemy can attack fixed supply lines."

This is exactly what happened in the first weeks of Operation Iraqi Freedom, as Army and Marine combat units smashed their way up the Tigris and Euphrates, moving at unprecedented speed and stretching behind them a thin supply line hundreds of miles long.

"The process of supporting and supplying the invasion of Iraq was not without its kinks," Sergeant Frank Pellegrini, a former journalist who covered the war for US Army Reserve Public Affairs, wrote in the September 2003 issue of ARMY magazine. "Sending troops forward with a basic load of just five to seven days of supplies proved to be cutting it close when stiff Iraqi resistance pinched off supply routes like the one through Nasiriyah."

Meanwhile, in the frontless combat zone of today's Iraq, civilian contractors increasingly find themselves in harm's way. "Since civilians now augment the Army in areas where technical expertise is not available or is in short supply within the military unit, they in effect become substitutes for military personnel who would be combatants," writes Craig Simonds, chief of the Materiel Staging and Fielding Division, Army Materiel Command (Europe), in a recent issue of Army Logistician.

So far, nobody is suggesting that outsourcing and other business practices will themselves become casualties of combat. But the kinds of lethal uncertainties that have emerged in Iraq will no doubt affect the cost-benefit analyses on which the military's business decisions are based. How do you price a contract for work that carries a high risk of employee abduction and death? For the private firms providing security in Iraq, such risks are business as usual. Now those driving the convoys and stocking the warehouses may be forced to make similar calculations, reminding the Pentagon planners that there is, after all, a difference between a contractor and a soldier.