

GETTING BACK TO BASICS



THE 2004 LOGISTICS CENTER
PERFORMANCE BONUS PROGRAM

“Bonus 301”

Year three.

Depending on your frame of reference, you might say, “Great! Another chance to improve our Logistics Center and maybe even earn another bonus!” Or, on the other hand, “Oh, here we go again. This ‘bonus thing’. Some of those goals were not the best at measuring our performance, you know.”

No matter how you look at it, this year’s Workforce Recognition Program contains some big improvements over last year’s.

1. The maximum bonus payout has been increased from \$500 to \$600!
2. Eligibility requirements have been greatly simplified.
3. Goals have been added, eliminated, or reworked to put us on the straight track to reaching our strategic objectives.

This booklet explains the 2004 bonus program and its goals, and shows how we, as Logistics Center employees, might help to reach our objectives.

As you read through this booklet, keep the following in mind:

- The award objectives are stretch targets, but they are attainable.
- When you have an idea you believe can help reach an objective, tell your supervisor or manager!

“Questions and Answers”

Who is eligible? To be eligible for the payout, you must currently be in a permanent or temporary employee status.

When will I receive my bonus? Any bonus earned will be paid in October 2004.

How will it be distributed? The bonus will be shared among all Logistics Center employees. Full-time Logistics Center employees will earn 25% of the annual payout for each fiscal year quarter they are employed. Employees receiving payment from the Office of Workers’ Compensation Program (OWCP) will be eligible for the bonus only if working at the time of payout. If a Logistics Center employee works one day of a quarter, they are eligible for that quarter’s bonus.

So, how is 2004's Workforce Recognition Program different from last year's?

The Objectives: In 2003, there were five objectives: Reduce Product Defects, Increase Margin From Operations, Increase Sales, USA Service – Customer Satisfaction Survey, and Increase Superfast Delivery Success.

This year, there are seven objectives.

- Three of 2003's objectives will again be included (with new targets and clearer names) – Achieve Margin from Operations, Achieve Total Sales, and Increase Customer Satisfaction. We achieved all of these goals last year!
- Two new operational objectives have been established for 2004 – Reduce Cost of Rework and Increase Issue Effectiveness.
- “Reduce Product Defects” (which included all reported defects) has been changed to “Reduce Confirmed Defects” to better measure our actual performance.
- One objective, Reduce Spending, is being brought back from the 2002 Workforce Recognition Program (it was called Cash Management then). We met this goal in 2002!

(NOTE: The Increase Superfast Delivery Success goal has been dropped for 2004.)

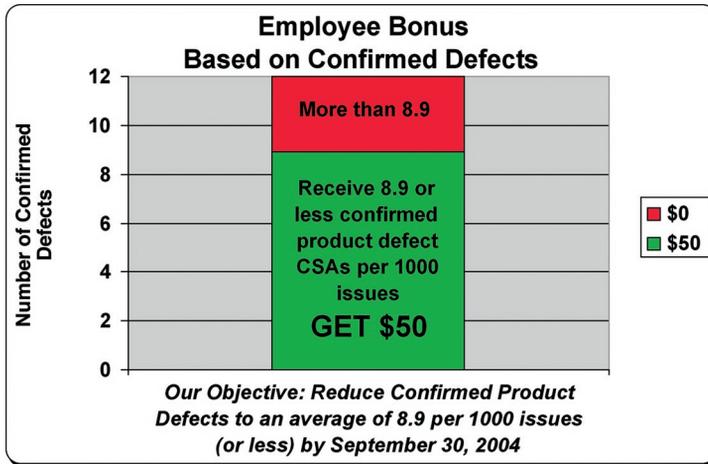
Where can I see our progress toward the goals? You can view the most up-to-date information each month in the “Inside AML” newsletter.

Note: Past months' “Inside AML” editions are available online at

http://www.faalc.jccbi.gov/inside_aml/default.htm.

Also, our current status will be briefed every month in senior management meetings.

Goal #1 – Reduce Confirmed Defects



What does it mean?

Last year’s bonus goal focused on **reported** defects and, while our customers’ **perceptions** of our product quality is very important (it will still be monitored – just not as a bonus goal), this year we will have a tighter focus for our product quality goal.

Confirmed defective products are what we are measuring in this bonus goal. So, what is a “confirmed defect”? **A confirmed defect is defined as an asset that does not pass the serviceability test.**

Per the Logistics Center’s CSA business rule “CSAs and Qualified Issues”, **included** are all sales transactions for E&R In-House items and Material Products, all No Cost Item issues, Local Issues for consumption, Failure Under Warranty actions, and non-reimbursable item issues. **Excluded** are issues of direct ship items, commercially-repaired E&R items, issues of repairable items to repair facilities (transaction code 81s), issues of F&E items, and issues of CDLS items.

“**Confirmed defective products per 1,000 issues**” are the number of confirmed defects reported in the CSA database, divided by the number of total sales, and then multiplied by 1000. This includes **all priorities**. Here is the formula:

$$\frac{\text{Total Confirmed Defective Products}}{\text{Total Issues}} * 1,000 = \# \text{ of Errors per 1,000 Issues}$$

Data Sources:

- Defective Products – Data Mart (CAPDV.CSA Issue Quality)
- Sales Issues – Data Mart (CAPDV.CSA Issue Quality)

How can I help?

This goal relates to complaints of a product **quality** nature. What can you do in a normal day to help ensure the quality of the items we provide?

Inventory Manager:

- On **shop-repaired** items, if you receive a complaint about a shop-repaired item, consult with the equipment experts to solve the problem.
- Provide an **approved** Technical Data Requirements (TDR) package with **every** purchase request. This will help ensure that vendors have everything they need to provide quality products that meet all our customers' requirements.

Technician:

- Actively support the **Tech-to-Tech Communications** process.
- When you are working on an item, handle it properly by following all Electro Static Discharge (ESD) procedures, ensuring the physical condition of the product – that it is free of dust, grime, and residue.
- If you identify multiple CSAs (same NSN) from the same site, take action to investigate and correct the problem.

Production Controller:

- If you are staging a delicate piece of electronic equipment for pickup, ensure the item is adequately protected for the trip back to the Repack area.
- If you believe an asset's condition is suspect, **have it checked for serviceability.**

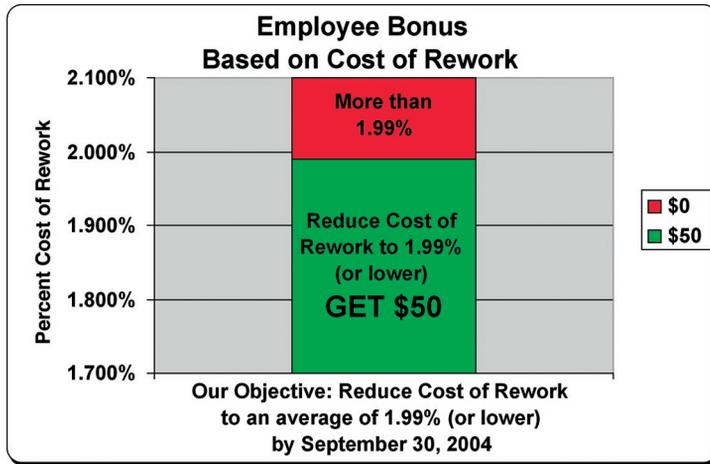
Distribution Center Personnel: Handle, store, and pack material properly.

- If you believe an asset's condition is suspect, **have it checked for serviceability.**
- Store stock in item-appropriate locations (i.e. consider weather, temperature, and hazardous requirements).
- Properly package asset in accordance with the packaging standard.

Customer Care Agent: When generating a Warranty Request CSA, validate that the item in question meets **all** of the criteria for Logistics Center Warranty. (Improperly categorizing CSA tickets could negatively impact the accuracy of the data collected.)

Buyer / Contracting Officer: Select only **quality** suppliers - those on the Qualified Vendor's List and/or ISO-certified, when possible.

Goal #2 – Reduce Cost of Rework



What does it mean?

Quality comes at a cost. And the **cost of quality** is something like cholesterol. There is good, and there is bad.

The cost of **good** quality includes the costs that occur doing things to ensure the quality of processes and their resulting products – for example, testing and planning costs. The cost of **poor** quality includes the costs that occur doing things **wrong**. It is the scrap, rework, service after service, warranty, inspection, tests, and similar activities made necessary by nonconformance problems.

This year, we are focusing on **one aspect** of the cost of quality – **rework**.

Here is the formula:

$$\frac{\text{Cost of Warranty}}{\text{Total Sales – Services}} * 100 = \text{Cost of Rework (in \%)}$$

According to the American Society for Quality (the American part of ISO):

“Cost of quality is the amount of money a business loses because its product or service was not done right in the first place. From fixing a warped piece on the assembly line to having to deal with a lawsuit because of a malfunctioning machine or a badly performed service, businesses lose money every day due to poor quality. For most businesses, this can run from 15 to 30 percent of their total costs.”

("Cost of Warranty" includes all failure under warranty issues to external customers – **included** are E&R In-House, E&R Commercial, Material Products, and Direct Ship items. **Excluded** are F&E issues, National Failure Under Warranty-coded items, and CDLS-coded items.)

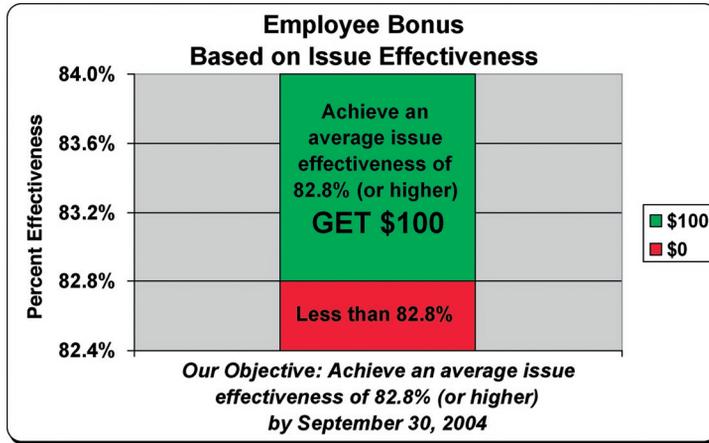
Data Sources:

- Daily Transaction File – LIS (Report LG1161)
- Logistics Center Financial Statements

How can I help?

Simply put, Cost of Rework is the financial impact of honoring our Logistics Center warranty. Every time we send a no charge replacement item (warranty) to a customer, we incur a cost. So, do everything you can to ensure that our customers receive high quality, working, undamaged products.

Goal #3 – Increase Issue Effectiveness



What does it mean?

What is the percentage of time that we have an item in stock that can be shipped to an external customer within 24 hours? How often do we receive a direct ship requisition from an external customer and get it processed within 24 hours? The answers to these two questions are the focus of this goal.

For stocked items, we look at the amount of time from receipt of original requisition to actual ship time. For direct ship items, time is measured from receipt of requisition to processing of the requirement to either Fed/Mil or AMQ.

Excluded are priority three and four requisitions, non-cataloged requisitions, warranty requisitions (T/C 76), and F&E requisitions.

Here is how the formula looks:

$$\frac{\text{Overall Total On Time Shipments}}{\text{Overall Total Orders}} * 100 = \text{Issue Effectiveness (in \%)}$$

Data Sources:

- LIS History Files

How can I help?

Inventory Manager:

- Keep adequate serviceable stock on hand. Check both your normal LIS IM and your Automated Procurement System (APS) queues several times each day, as well as those of any IMs you are backing for the day. Process all requisitions as quickly as possible – stocked items and direct ship alike.

Production Controller / Technician:

- If you receive a customer-ordered item for tuning or calibration prior to shipment, take care of it quickly and get it back into the distribution process.

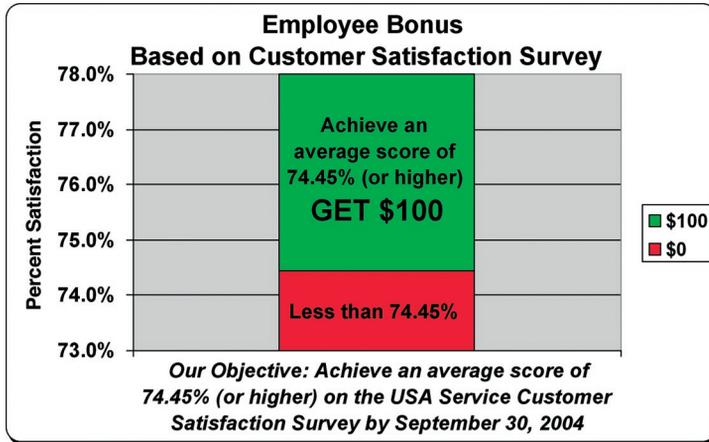
Distribution Center Personnel:

- Pull, transport, pack, and ship items quickly.

Customer Care Agent:

- After hours and weekends, check the priority queue frequently and process

Goal #4 – Increase Customer Satisfaction



What does it mean?

How do our customers describe the service we provide through Universal Service Agreements? This is all about their perceived value of our services. Our customers may be asked about our costs, ability to meet schedules, performance, or processes. **Which things** are important to them, and **how important** are those things?

If we achieve an average score of 74.45% (or better), **we have reached the \$100 bonus level for this goal!**

Data Sources:

USA Service – Customer Satisfaction Survey Results

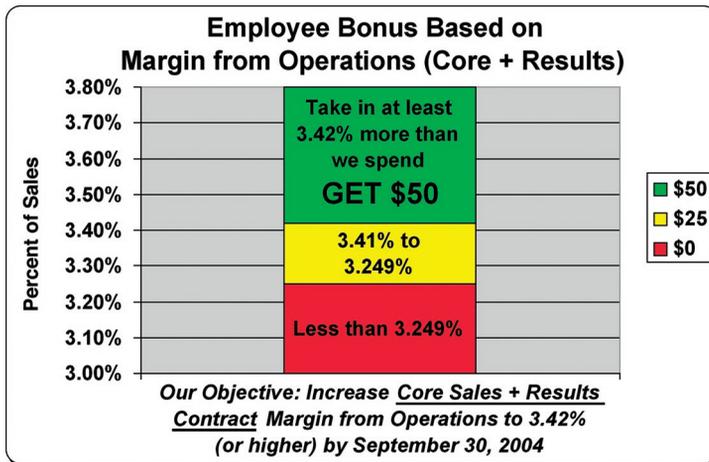
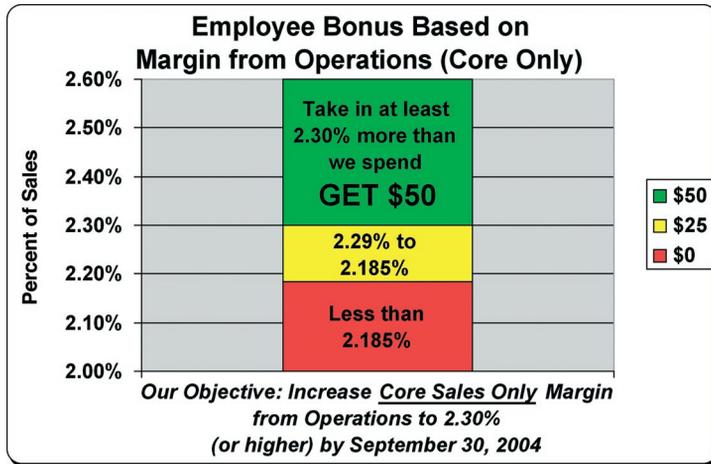
How can I help?

Anyone:

- Be conscientious. Maintain a positive attitude when interacting with customers, and return phone calls promptly.
- Do your job efficiently, timely, and in a quality manner. This will have a positive influence on our reputation for having quality products and services.
- Adequately document Monthly Activity Reports for USAs. Provide enough detail so that the customer perceives good value for their money.

- Support division service order reps in following COE/Service work instructions.
- Do quality work in performing the contracted work.
- Complete your tasks in the time agreed upon.

Goal #5 – Achieve Margin from Operations



What do they mean?

The “bottom line” *is the bottom line!* In the commercial world, they would call it “net income”. Under Revolving Fund, we call it “Margin from Operations”. It is the difference between all we take in and all we spend – “Sell more, and spend less.” Like profit...only government!

There are two “sub-goals” under Achieve Margin from Operations. The first concerns Core Sales **only**. (Core Sales = Material Products, E&R In-House, E&R Commercial, Direct Ship items, and Universal Service Agreements.) The second includes Core Sales **plus** Results National Contracting Services revenues.

Time for another formula:

$$\frac{\text{Sales} - (\text{Cost of Goods Sold} + \text{Expenses})}{\text{Sales}} = \text{Margin from Operations (in\%)}$$

For example, considering the Core Sales Only objective, if we spend \$977.00 to produce an item (including parts, labor, and other expenses) and we sell it for \$1000, our “Margin from Operations” is the difference, \$23.00. Translated into a percentage of the sales price, that is 2.30%. If we attain that 2.30% (or higher) overall, **we have reached the \$50 bonus level for this “sub-goal”!** Here is how it would look:

$$\frac{\$1000 - \$977.00}{\$1000} = \frac{\$23.00}{\$1000} = 2.30\%$$

Data Sources:

- Logistics Center Financial Statements

Inventory Manager: Be conscientious on stock buys (do not buy too much). When making a stock buy, use clear (good) part numbers, and work with Contracting to select good vendors who can produce and deliver. Getting the wrong item or an incomplete item can be extremely costly! (If you have to do it twice, it costs twice the money!)

Technician: Ensure piece parts are bad **before** you replace them. Ensure your direct labor time is accurately reflected on the work performed.

Production Controller: By continually monitoring and managing workflow, you control the stream of assets in and out of the shops. If smooth flow stops, work stoppages or slowdowns could occur and production could decrease, which could result in reduced stock availability and, ultimately, reduced **sales**.

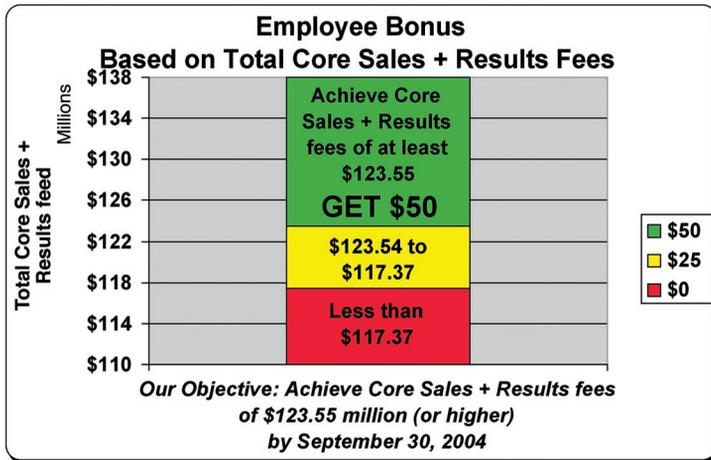
Distribution Center Personnel:

- Sometimes customers specify a particular carrier out of habit. If you suspect that a less expensive carrier will still satisfy the customer, call them and ask! It is not uncommon to save 30% on shipping this way!
- Pack in accordance with the packaging standard. Excessive packing can be wasteful and expensive.

Anyone:

- Do an honest day’s work for an honest day’s pay.
- Charge your time as accurately as possible. Giving away free services may be the difference between attaining this goal or not!
- Universal Service Agreements (USAs) are a dynamic means to increase sales and improve our bottom line. For example, a Logistics Center engineer who converts 500 hours per year from operating expenses to USA billable hours will increase sales by \$40,000. Do any USAs **already exist** that you can utilize? Can you identify an opportunity to develop a **new USA**?

Goal #6 – Achieve Total Sales



What do they mean?

This one is as simple as it sounds. Sell more!

Just like the Margin from Operations goal, there are two “sub-goals” under Total Sales. Each has two payout levels - \$50 or \$25.

The first one, again, concerns Core Sales only. (To repeat, Core Sales = Material Products, E&R In-House, E&R Commercial, Direct Ship items, and Universal Service Agreements.)

The second includes Core Sales plus Results National Contracting Services fees. “So, what are ‘Results fees?’” you may ask. It is like this... Let’s say Results awards a \$10,000 contract. And say that \$9,600 of that is paid to the contractor for their services. We would retain the balance, a processing fee of \$400. That is the “Results fee”.

Data Sources:

- Logistics Center Financial Statements

How can I help?

Anyone:

- Promote Results and USAs!
- Talk with customers about using Results instead of standard acquisition procedures.
- WOW Customers with exceptional customer service!
- Encourage contractors to enroll in the Results Qualified Vendor List.
- Quality products = repeat business.
- Develop **new** business!

Goal #7 – Control Spending



What does it mean?

The “Control Spending” (a.k.a. Cash Management) goal is about our ability to “*live within our means.*” Simply put, if we spend 96% (or less) of what we take in, we get \$100!

At first glance, this goal may seem similar to the fifth goal, “Achieve Margin from Operations”. However, “Control Spending” spending includes not only items we sell, but also “**investments**” – things we buy, but **do not** sell (stock buys, for example).

How can I help?

Inventory Manager: When the computer tells you to buy, do not take it at face value. Consider the age of the system, past demand, sources available, and the system’s life expectancy to make an informed decision on a stock buy. ***Stock bought, but not sold, still costs us and will have a direct, negative impact on reaching this goal!***

Technician: When ordering bench stock, do not order 1,000 when 500 will do.

Production Controller: Ensure that all items are kept at a cost-efficient stock level. Repairing too many of one item is both unnecessary and **costly!** We have to pay for it, even if we cannot **sell** it!

Anyone:

- Keep office expenses to a minimum.
- Be productive on your eight hours. Use overtime prudently.
- Make sure contracts are properly structured... “Do not give away the farm!”
...and look for opportunities to award long term.
- Select appropriate training. (Is that training that you **need**, or is it just training that you **want**?)
- Postpone “nice-to-have” renovations.
- Travel judiciously. Remember the phrase “...most advantageous to the Government!”

For additional information contact the Business Systems Group
AML-20 at 954-1587