

Military contracting in a war zone: Bill

Logistics supplier loses prime vendor status over charges of excessive pricing

Philadelphia, PA – November 18 2009. It was an overcast day and Bill was sitting at his desk fuming about the recent news regarding his largest supplier. Bill managed suppliers for the Defense Supply Center Philadelphia (DSCP), the troop support center of the Defense Logistics Agency (DLA), the logistics combat support agency of the U.S. Department of Defense (DoD). One of his main supplier relationships since 2003 had been with Agility (formerly Public Warehousing Company (PWC)), one of the key providers of logistics coordination in the combat-ridden Middle East.

Bill had managed the contracts with Agility since the company had become a 'prime vendor' to the DLA in 2003. The move towards using prime vendors within the DoD – single, full-service suppliers who could bring private-sector efficiency and expertise to bear – was designed to save the government money through simultaneously outsourcing, centralising and automating supply chain management¹. Between 2003 and 2009, Agility had won contracts from the DoD totalling US\$8.5 billion².

Bill had been involved in the regular performance assessments of Agility; accountability measures that permitted the DLA to ensure that their suppliers were meeting DoD standards. He had always provided them with positive assessments, which had led the company to win a number of awards (see **Exhibit B**), even though Bill had initiated a number of conversations with his Agility contact Rohit over the years about what he perceived to be strange or inconsistent charges. Rohit always had answers for him: that the charges were typical in the region, that they had little control over some of their sub-suppliers' charges, that premiums needed to be charged for the risks that they face in delivering their supplies.

Still, it had been difficult not to notice Agility's rising profits: up from US\$49 million in 2002 to more than US\$2.1 billion in 2008 (see **Exhibit A**). Eventually, the suspicions about the vendor across the DoD triggered a large-scale investigation of their practices, the outcome of which had just been made public with the announcement that they were being indicted by a grand jury on multiple counts of fraud (see **Exhibit C**).

Celia Moore, Assistant Professor of Organisational Behaviour, London Business School, prepared this case with research assistance from Quang Nguyen, MBA 2010. The facts of this case are derived from public sources; however, the protagonists herein are completely fictional and developed for teaching purposes only.

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