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# ***AFLCMC Perspectives on Will Cost/Should Cost Management***



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**Will Cost: Janice Burke AFLCMC/FZC**  
**Should Cost: Scott DeBanto AFLCMC/AZF**

**25 March 2014**



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# ***AFLCMC Perspectives on Will Cost/Should Cost Management***

## ***Will Cost***

**Janice Burke**  
**25 March 2014**



# Will Cost (Overview)



- **Will Cost Estimate Defined**
  - How it relates to the Should Cost
- **Will Cost in AFLCMC**
- **Center Level Agreements (CLAs)**
- **B02 LCMC Annual Program Office Estimate Standard Process**
- **Will Cost Waivers**
- **Tools**
- **Summary**



# Will Cost Estimate (WCE) (Defined)



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- **Cost estimate of official program of record**
  - Provides the budget baseline
  - Reflects requirements at a point in time, includes a realistic program schedule, and includes risk dollars
- **Supports budget and ensures confidence that:**
  - Program can be completed w/o significant adjustment to budgets
  - Program can avoid Nunn-McCurdy or critical change breaches
- **WCEs will be used for all acquisition, budget, and program execution decisions such as acquisition strategy reviews and annual budget/programming cycle exercises**
- **WCE is the starting position for Should Cost excursions**
  - Program Should Cost Estimate (SCE) is for internal program execution
  - When SC initiative implemented a new lower baseline is set
  - Applied cradle-to-grave in program life cycle phases





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# Life Cycle Management Center Will Cost Implementation



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- Based on *Cost Analysis Guidance and Procedures, AFI 65-508*, dated Jun 2012
  - 1.1.1.1.2. “POEs are updated annually for all ACAT I, II and III programs”
  - 1.1.1.1.3. “The product/logistics center FMC[\*] must concur on all annual ACAT I, II and III POEs”
  - 1.2.4. “...does not provide direction on the development of should-cost estimates”



\*Product/logistics center FMC is the staff Cost Chief at bases where LCMC programs are managed



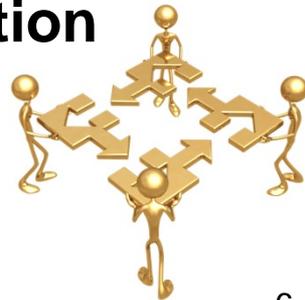
# Center Level Agreements (CLAs)



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- **Analysts from AFSC support LCMC programs**
  - Center Level Agreements (CLAs) govern the interaction between/among Centers
  - CLAs optimize low density high demand cost analyst workforce
- **Between LCMC/AFSC and LCMC/AFNWC**
  - Outlines responsibilities of Cost Staff offices
  - Implements AFI 65-508 by documenting authority for approval or waiver of annual ACAT I, II, III estimates
  - Documents the ongoing collaboration among Cost Staff offices to include training and standardization of cost analysis products





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# B02 LCMC Annual Program Office Estimate Standard Process



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- **Annual POE Standard Process is one of 5 AFLCMC Critical Processes**
- **Standard Process for LCMC POEs (WCEs) is consistent with the intent of AFI 65-508**
  - “In the context of this document, the ‘product/logistics center FMC’ shall be interpreted to mean the host Center Cost Chief, or delegate, at the location where a program is managed”
- **Over 400 LCMC ACAT I/II/III programs**
  - LCMC/FZC monitors compliance with AFI 65-508
  - For each calendar year, FZC collects WCE waivers and projected WCE schedules for all LCMC ACAT programs





# AFLCMC Annual Program Office Estimate or Will Cost Waiver Criteria



- An annual program office estimate update may be waived for ACAT II/III and recommended\* for ACAT I at the discretion of the Cost Chief if:
  1. The managing location Cost Chief has approved an initial estimate in a Cost Estimate Review
    - and*
  2. Any of the following conditions are present:
    - Low cost/low risk: Initial Cost Chief Reviewed estimate was < \$50M
    - Definitized contract is Firm Fixed Price or Time and Materials
    - Program is Level of Effort
    - Program has Stable Production – “Buy to Budget”
    - Program is in last year of effort/production
    - Tech Projects with no anticipated acquisition Milestone decision
    - Program is undergoing major restructure or dependent on other program not yet completed
    - Program zeroed out in budget (for at least waiver year)
    - Note: Programs on the AFCAA NACA list will not be waived

\*Managing location Cost Chief may waive an estimate for ACAT II/III or recommend waiving an ACAT I if the program was added to the Acquisition Master List after January



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# Tools

View in Slide Show for Live Links

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## Some available resources/tools today

- [B02 AFLCMC Standard Process for Annual Program Office Estimate](#)
- [Center Level Agreements \(CLAs\)](#)
- [AFI 65-508](#)
- [AFPD 65-5](#)





# Will Cost Summary



- **LCMC Implementation of Will Cost**
  - IAW AFI 65-508
  - Based on CLAs with other AFMC Centers
  - Designated as LCMC Critical Standard Process
- **Will Cost Estimate**
  - Is updated annually unless waived
  - Must be approved by managing location Center Cost Chief
  - Reflects the official program of record
  - Serves as basis for budget
  - Is required for Should Cost Estimate



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# ***AFLCMC Perspectives on Will Cost/Should Cost Management***

## ***Should Cost***

**Scott DeBanto**  
**25 March 2014**



# Should Cost (Overview)



- **Background**
- **What is Should Cost?**
  - How it relates to the Will Cost
- **Should Cost in AFLCMC**
- **Development Process**
- **Tools**
- **Summary**



# Background

## (Should Cost...What Is It All About?)



- **USD(AT&L) introduced the Better Buying Power (BBP) initiative in 2010**
  - Goal - increasing funding for war fighting capabilities without increasing budget
  - “Do more without more”
- **BBP 2.0 emphasized better value to taxpayer and warfighter**
  - Continuing the pursuit for greater efficiency and productivity in defense spending
  - Discrete guidance; Implementing directive for BBP 2.0
- **Is an integral element dealing with controlling costs**



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# Background (Controlling Cost)



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- **“The basic goal of Better Buying Power remains unchanged: deliver better value to the taxpayer and Warfighter by improving the way the Department does business.”**
- **“Should Cost management is an important tool to control costs both in the short term and throughout the product life cycle.”**
- **“All acquisition managers should routinely analyze all cost elements and consider reasonable measures to reduce them, with prudent, cost-benefit based considerations of associated risks.”**



*The Hon. Frank Kendall,  
then Undersecretary of Defense for Acquisition, Technology, and Logistics  
November 30, 2012 & August 6, 2013*



# What is Should Cost? (Defined)



- **Should Cost (SC) management is a continual effort to scrutinize each element of cost, across the life-cycle, and assess how it can be reduced without unacceptable reductions in value received.**
  - It should never be considered a one time event
- **The Program Manager should consider a complete Integrated Product Team (IPT) for successful implementation, to include the contractor, and the customer/warfighter.**
- **The SC estimate will be based on realistic technical and schedule baselines and assumes success-oriented outcomes from implementation of efficiencies, lessons learned, and best practices**



# What is Should Cost?

## (OSD (AT&L)'s Direction to Program Managers)



### Should Cost

**Should Cost asks us to continuously fight to lower all of our costs wherever it makes sense**

- **It's a tool to manage all costs throughout the lifecycle, and operates in parallel with effort to constrain requirements to control final product unit and sustainment costs.**
- **Is focused on controlling cost of the actual work that we are doing and expect to do**
- **Estimates inform our negotiations with industry over contract costs and incentives**
- **Challenges us to do best to find specific ways to beat the Independent Cost Estimate (ICE) or program estimate and other cost projections funded in our budgets (i.e., the "will cost"), when sensible to do so**
- **Should Cost does not mean trading away the long-term value for short-term gain**



# What is Should Cost? (WC and SC)

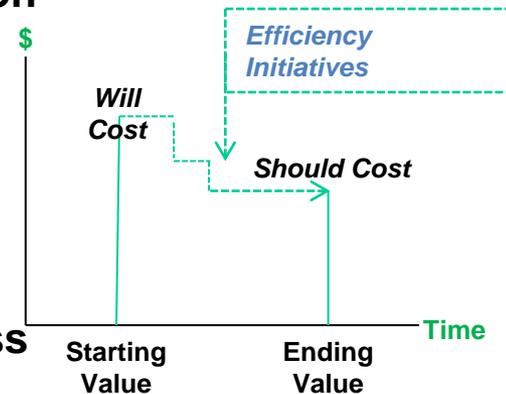


## Will Cost

- Program Office Estimate Independent estimate or budget baseline
- Derived using multiple estimating methodologies (provides sufficient resources to execute the program under normal conditions)
- Average levels of technical, schedule, and program risk
- Sufficient funding to allow program completion without additional budgets
- Initial basis for program budgets

## Should Cost

- Developed by the Program Office or organization
- Used as an internal management tool to incentivize performance to targets
- Can drive productivity improvements
- Incorporates results of Should Cost review of Govt/Ktr direct and indirect costs, contracts
- Continuous effort with tracking for effectiveness
- Applied cradle-to-grave in program life cycle phases





# What is Should Cost? (Correcting Misperceptions)



- **Not just a Financial Management activity:**
  - “The Program Manager has overall responsibility and is charged with developing, reporting and tracking the SC initiatives.”
- **Not a new baseline:**
  - “SC initiatives are “stretch goals” which identify specific discrete measurable initiatives to achieve savings against the Will Cost estimate.”
- **Not a cut in requirements or scope:**
  - “SC initiatives are based on efficiencies, a de-scope may be a SC initiative if the initiative specifically identified a change in the requirements that met the mission, but at a reduced cost.”
- **Is a life cycle activity or perspective**
  - “Should cost management...is an important tool to control costs both in the short term and throughout the product life cycle.”

*Excerpts From AT&L's Should Cost Management in Defense Acquisition memo, Aug 13 and SAF/AQ Guidance and Business Rules Oct 13*



# Should Cost in AFLCMC



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Should Cost Team



**DELIVER TO COMMITMENTS**



# Should Cost in AFLCMC (The SC Continuum)



## The Should Cost Continuum →

**Policy & Guidance**  
“What is Should Cost and why must I do it?”

**HHQ:**

- OSD/AT&L Policy
- SAF/AQX Policy
- AFLCMC Standard Process

**SC Initiative Methodology**  
“Where/how can I save money?”

**Academia:**

- UT NDBI\*
- DAU

**Reporting**  
“How do I input my SC Estimate in CCaR\*\* & reinvest the savings?”

**HHQ:**

- SAF/AQ Business Rules
- IDS CCaR Guidebook

\*University of Tennessee National Defense Business Institute (on contract with SAF/AQXR)

\*\* Comprehensive Cost & Requirements System



# Should Cost in AFLCMC (Policies & Guidance)



- **OSD/AT&L policy (Aug 13): Oversight, Reporting & Allocation of Savings**
  - Establishes CAE, PEO responsibilities & reporting requirements
  - Savings may be applied to most pressing unfunded requirements within CAE/PEO portfolio
- **SAF/AQX policy (Oct 13):**
  - AF Guidance & Business Rules
  - Waiver template
  - Savings will be applied to most pressing AF requirement; PEO recommendations strongly considered
  - “...will document SC activities in Comprehensive Cost and Requirements System (CCaRS).”
- **AFLCMC Standard Process (Oct 13)**
  - “How to” for AFLCMC Program IPTs...roles & responsibilities, tools, training, policies, etc.



# Should Cost in AFLCMC (Training)



- **Defense Acquisition University**
  - Multiple presentations on BBP 2.0 and SC
  - Notable is Dr. Husband brief on applications of SC
- **University of Tennessee NDBI Workshops**
  - Phase I, Spring - Summer 2013
  - Phase II, Fall - Winter 2013
- **CCaR SC Tool training**
  - Provided by IDS, CCaR developer
  - DCO's, video and in-person
  - Can provide one-on-one program/Directorate training
- **Currently assessing future training needs**



# Should Cost in AFLCMC (Reporting)



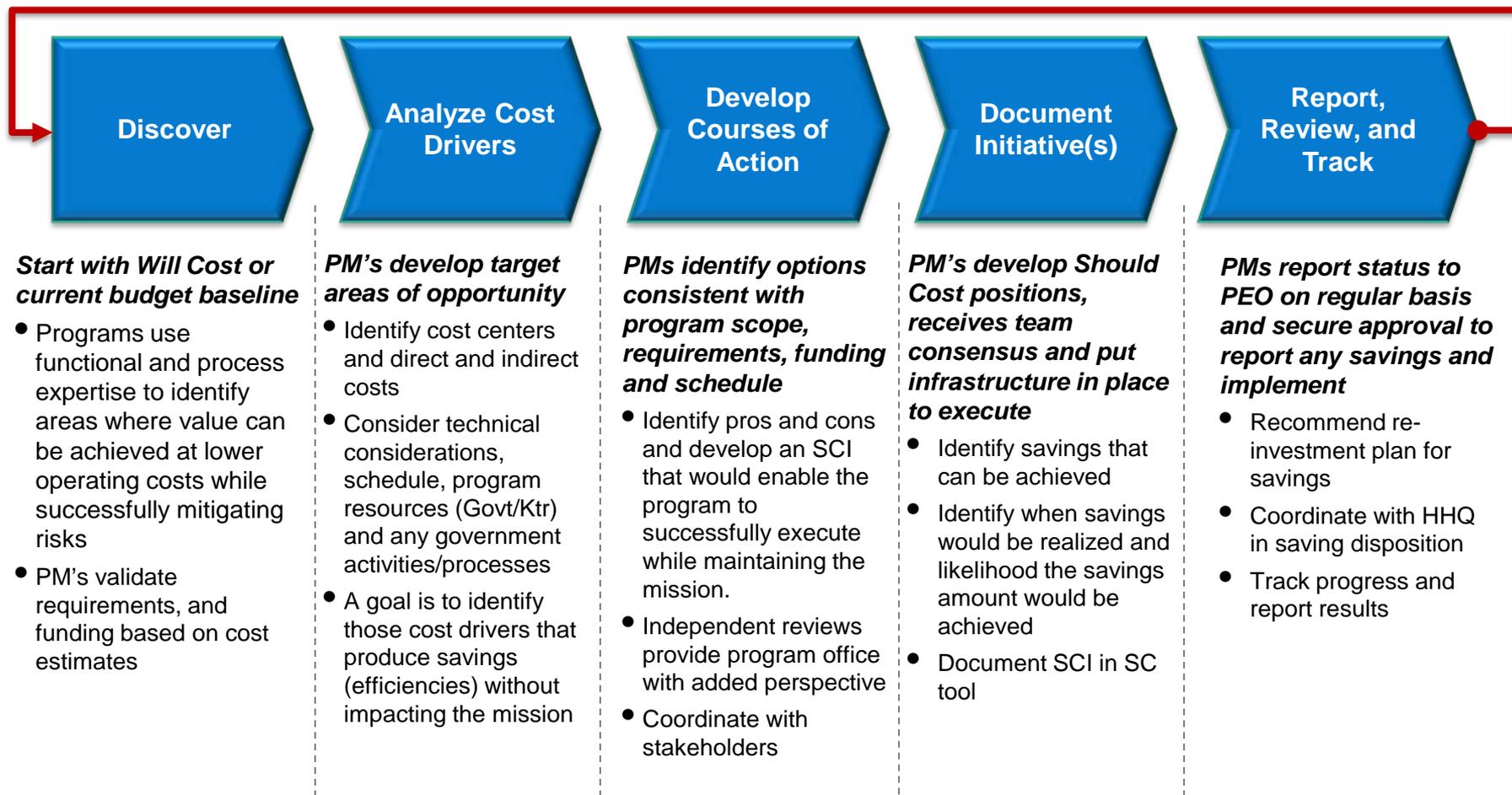
- **Air Force SC Business Rules**
  - Describes how SC is implemented in CCaR
  - Includes roles, procedures, inputs and outputs
  - Not a user's manual for the CCaR SC tool
- **CCaR is tool of choice for tracking SC activities**
  - IPT inputs data into CCaR
  - PM has responsibility to notify PEO when planned SC savings have been achieved for their program
- **Major defense programs required to present SC efforts at DABs and DAES reviews**
- **Foreign Military Sales not required to report, but encouraged to follow SC management philosophy**



# SCI Development Process (Notional Activity Flow)



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**Continuous process through the life cycle**



## Some available resources/tools today

- DAU Training Resources:
  - <http://bbp.dau.mil/>
- AFMC BBP 2.0 Tool:
  - <https://cs.eis.af.mil/airforcecontracting/BetterBuying/default.aspx>
- CCaR websites
  - <https://webccaralt.altess.army.mil/webccar/>
  - [www.webccar.com](http://www.webccar.com)



# Should Cost Summary



- **Is not a one time event**
  - Think about efficiencies in every process, activity or contract effort
- **A disciplined process with sequential steps that will aid in developing rigorous, sound SC estimates**
- **Should Cost is relevant for all Air Force programs**
- **Do not focus solely on short-term savings, but have a life cycle perspective**
- **\*Scrutinize each contributing element of cost – justify it!  
Could you reduce?**



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***Questions?***



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# *Backups*



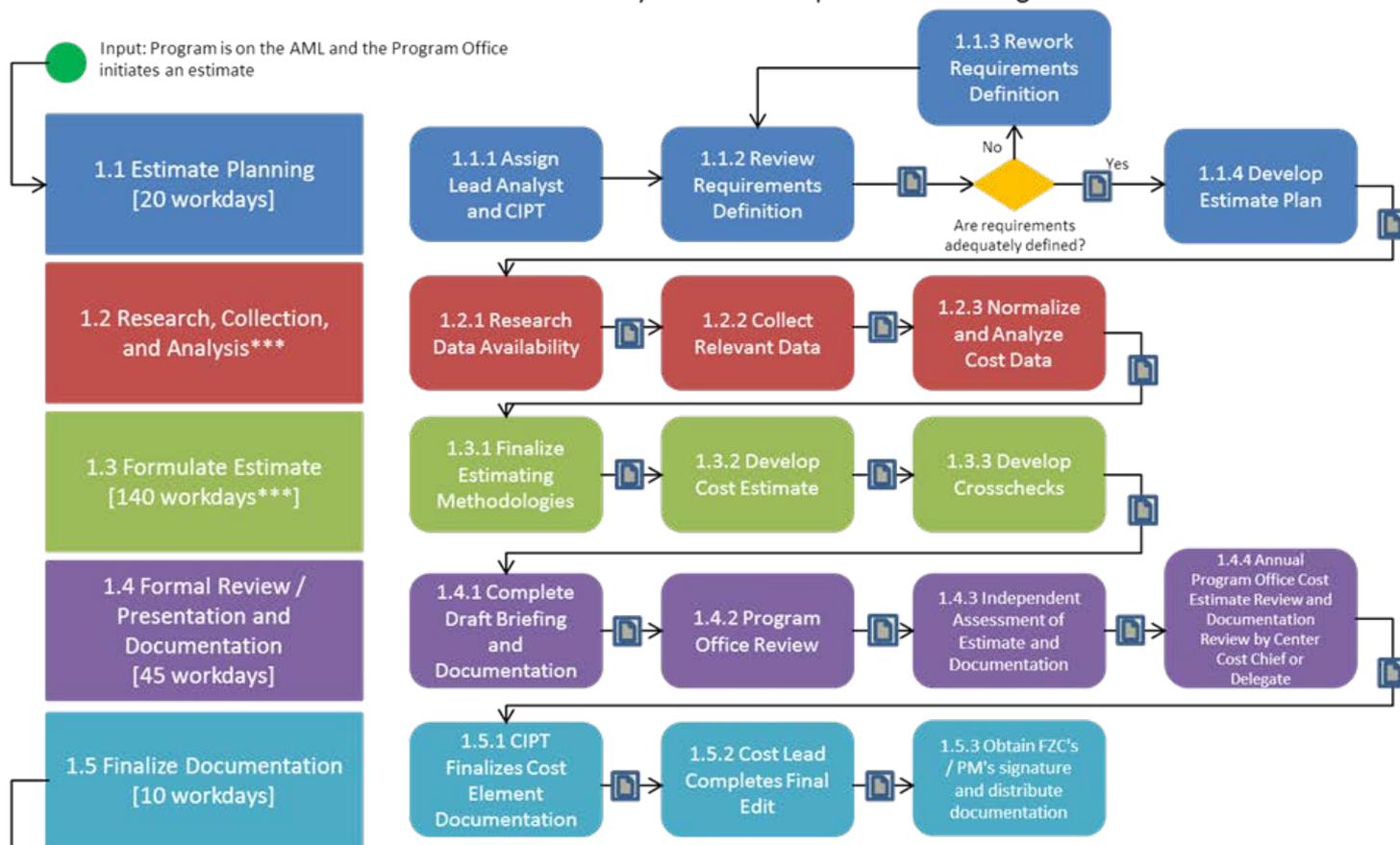
# Process Flowchart



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## Annual Program Office Cost Estimate Process Flowchart\*

Standard Workdays\*\* Shown Represent an Average



Output: Approved Program Office Estimate and Documentation



Means to document the estimate throughout its development i.e., ground-rules, assumptions, data sources, methodology, results, etc.

\* Subsequent blocks may start prior to completing the prior block. Also, a return to a previous block may be required.

\*\* Standard workdays to be refined with data collection

\*\*\* The durations associated with WBS 1.2 and WBS 1.3 are to be measured and reported as a summation



# Standard Process Metrics



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Requirement	Standard	Actual	Comments
1.1 Estimate Planning	20 Workdays		
1.2 Research, Collection, and Analysis + 1.3 Formulate Estimate	140 Workdays		
1.4 Formal Review / Presentation and Documentation	45 Workdays		
1.5 Finalize Documentation	10 Workdays		
If activating WBS 1.1.3 was necessary, how many workdays were required to obtain adequately defined requirements ?	0 Workdays		
Did changes in requirements cause a return to WBS 1.1?	No		
Did CIPT receive direction to rework portions of the estimate as a result of the Annual Program Cost Estimate Review by Center Cost Chief or Delegate?	No		
If ACAT I program, was estimate led by Level 3 BUS-CE certified analyst?	Yes		
If ACAT II/III program, was estimate led by at least Level 2 BUS-CE certified analyst?	Yes		



# Will Cost Waiver Flowchart



ACAT I/II/III (RDT&E and/or Procurement Funds)  
Annual Program Office Cost Estimate  
(POE or Will Cost) Waiver

Local Program Office Staff  
Reviews Waiver Criteria and  
Creates Waiver Request if  
Criteria Met



PEO Staff (PEO & CFO)  
Review/Concur



**ACAT I:**

- Center Cost Chief\* Reviews Request and Sends Recommendation to AFLCMC/FZC
- AFLCMC/FZC Sends Recommendation to SAF/FM through AFLCMC/FZ

**ACAT II/III:**

- Center Cost Chief\* Reviews
  - =If Cost Chief denies, waiver returned to Directorate CFO with denial rationale
  - =If Cost Chief approves, sends Info Copy to AFLCMC FZC, MAJCOM FMC, and SAF/FMC

*Program Manager signs waiver request*

*Directorate CFO and PEO sign waiver request*

*-ACAT I: Local Cost Chief, AFLCMC/FZC, AFLCMC/FZ sign waiver request (SAF/AQ or delegated PEO must concur before SAF/FMC signs)*  
*-ACAT II/III: Local Cost Chief signs waiver request*

\*Center Cost Chief: Host Center Cost Chief, or delegate, at the location where a program is managed; as per AFI 65-508, 1.1.1.1.3: "The product/logistics center FMC "



# Will Cost Waivers



## Will Cost Waivers:

- ACAT I waiver format taken from AFI 65-508
- ACAT II/III waiver format modeled after AFI 65-508
- AFLCMC added Permanent Waiver Option for I/II/III
- All waivers due to SAF/FMC by 30 Jan of Calendar Year of estimate \*
- Waiver formats and criteria are available on FZC SharePoint site
  - <https://org4.eis.afmc.af.mil/sites/1536/AFLCMC.FZC/POE%20Waivers/Waiver%20Information.aspx>

### CYXX ANNUAL COST ESTIMATE REQUIREMENT WAIVER REQUEST

ACAT I Program  
Program Office Estimate (POE) Waiver

Program Name: \_\_\_\_\_

Air Force Policy Directive (AFPD) 65-5 "Cost and Economics" requires a Program Office Estimate (POE), be prepared and updated annually, on all Major Defense Acquisition Programs (MDAPS) and all Major Automated Information Systems (MAIS). For the reasons listed below, the \_\_\_\_\_ program is unable to produce its annual POE and is requesting a waiver to AFPD 65-5. The last POE for the \_\_\_\_\_ program was completed on \_\_\_\_\_.

Rationale for waiver:

The \_\_\_\_\_ program:

Plans to complete CYXX+1 POE by \_\_\_\_\_ OR

Requests a permanent waiver \_\_\_\_\_ (state Yes or No)

	Name/Office Symbol	Signature	Date
Program Manager			
SAF/AQ or Delegated PEO			
Deputy Assistant Secretary (Cost and Economics)			

\*Sooner to FZC to account for lead-time to consolidate and achieve FZ signature



# Affordability vs. Should Cost



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**“Affordability as a requirement”** directs that we establish quantified goals for unit production cost and sustainment costs for our products, driven by what the Department or Service can pay. We should set these goals early and use them to drive design trades and choices about affordable priorities...

**“Should-cost”** asks us consciously to do something different...to continuously fight to lower all our costs, wherever that makes sense. Should-cost is a tool to manage all costs throughout the life cycle and it operates in parallel with the effort to constrain our requirements appetites...Should-cost is focused on controlling the cost of the actual work that we are doing and expect to do.



# Background

## (Better Buying Power 2.0)



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### Achieve Affordable Programs

- Mandate affordability as a requirement
- Institute a system of investment planning to derive affordability
- Enforce affordability caps

### Control Costs Throughout the Product Lifecycle

- Implement "should cost" based management
- Eliminate redundancy within warfighter portfolios
- ~~Institute a system to measure the cost performance of programs and institutions and to assess the effectiveness of acquisition policies~~
- Build stronger partnerships with the requirements community to control costs
- Increase the incorporation of defense exportability features in initial designs

### Incentivize Productivity & Innovation in Industry and Government

- Align profitability more tightly with Department goals
- Employ appropriate contract types
- Increase use of Fixed Price Incentive contracts in Low Rate Initial Production
- Better define value in "best value" competitions
- When Lowest Price Technically Acceptable is used, define Technically Acceptable to ensure needed quality
- Institute a superior supplier incentive program
- Increase effective use of Performance-Based Logistics
- Reduce backlog of DCAA Audits without compromising effectiveness
- Expand programs to leverage industry's IR&D

### Eliminate Unproductive Processes and Bureaucracy

- Reduce frequency of higher headquarters level reviews
- Re-emphasize Acquisition Executive, PEO and PM responsibility, authority, and accountability
- Reduce cycle times while ensuring sound investment decisions

### Promote Effective Competition

- Emphasize competition strategies and create and maintain competitive environments
- Enforce open system architectures and effectively manage technical data rights
- Increase small business roles and opportunities
- Use the Technology Development phase for true risk reduction

### Improve Tradecraft in Acquisition of Services

- Assign senior managers for acquisition of services
- Measure productivity using the uniform services market segmentation
- Improve requirements definition/prevent requirements creep
- Increase small business participation, including through more effective use of market research
- Strengthen contract management outside the normal acquisition chain – installations, etc.
- Expand use of requirements review boards and tripwires

### Improve the Professionalism of the Total Acquisition Workforce

- Establish higher standards for key leadership positions
- Establish increased professional qualification requirements for all acquisition specialties
- Increase the recognition and support of excellence in acquisition management
- Continue to increase the cost consciousness of the acquisition workforce – change the culture



# Mr. Kendall 10 Points on Should Cost



1. Scrutinize each contributing element of cost – justify it! Could you reduce?
2. Particularly challenge the basis for indirect costs in KTR proposals
3. Track recent cost/schedule/performance trends & look for ways to improve
4. Benchmark – similar DoD pgms, other KTR pgms, commercial analogues
5. Promote supply chain management to encourage competition & incentivize cost performance at lower tiers
6. Reconstruct the pgm team (Gov't & KTR) to be more streamlined & efficient
7. ID opportunities to breakout GFX vs. contractor provided items
8. ID items or services contracted thru 2<sup>nd</sup> or 3<sup>rd</sup> party; eliminate unnecessary pass-through costs by considering other options
9. Utilize integrated DT/OT and modeling/simulation to reduce test costs
10. ID alternative technology/material that could reduce costs; ensure contract includes provisions for potential transition