

# O&S Cost Trends and Issues

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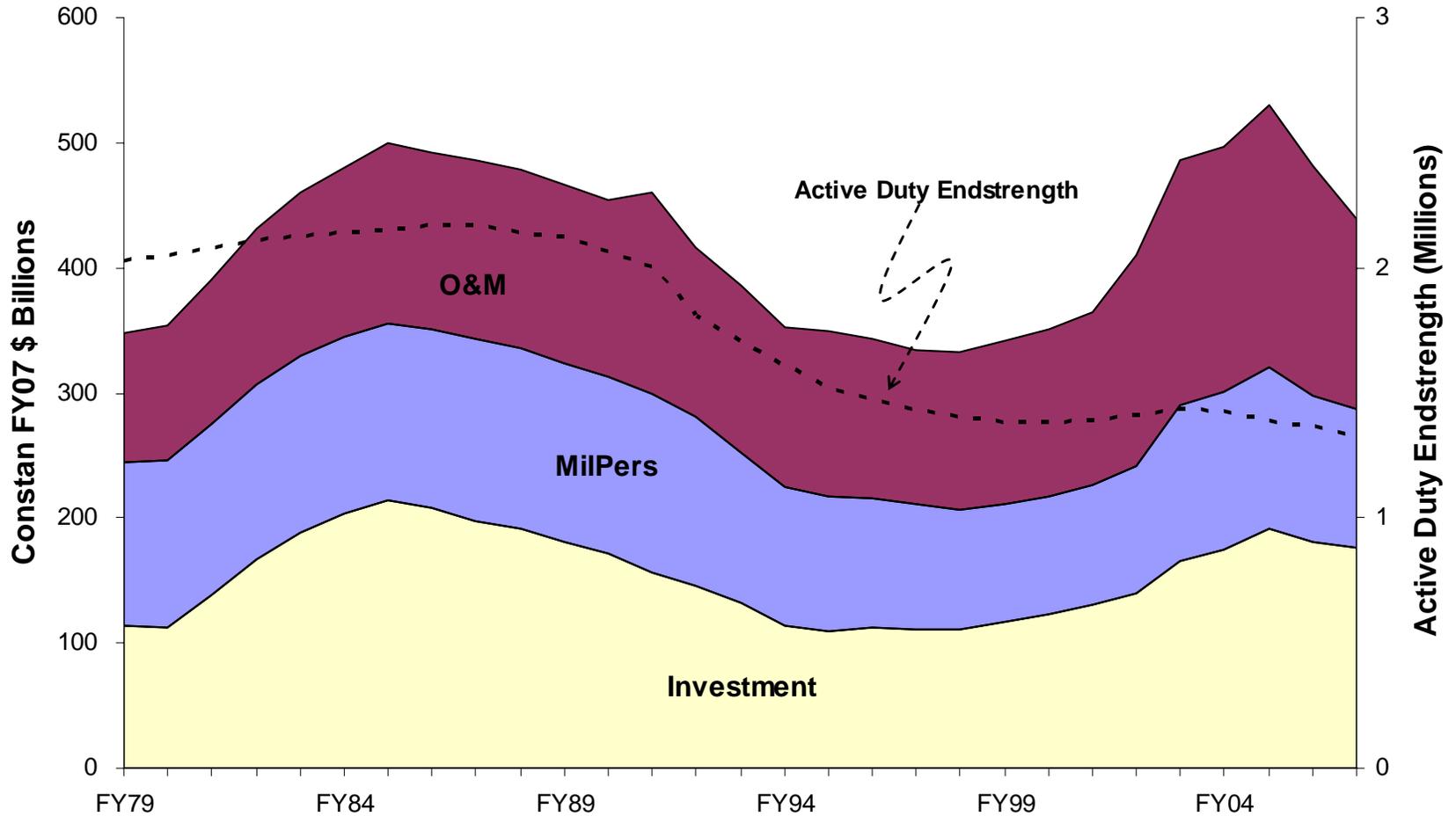
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# The Cost Analysis Improvement Group (CAIG)

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- Established in 1972 by Secretary Laird
- Principle adviser to Secretary of Defense on costs of major defense acquisition programs
- Prepares independent cost estimates, as required by statute
- Responsibilities in O&S costing
  - Oversight of VAMOSOC
  - Independent estimates of O&S costs
  - Review and analysis of product support strategies

# DoD Total Obligation Authority vs Active Duty End Strength



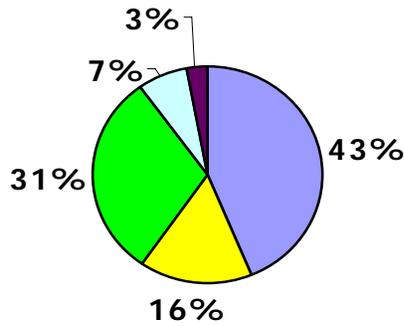
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# Distribution of Life Cycle Costs (Percentages)

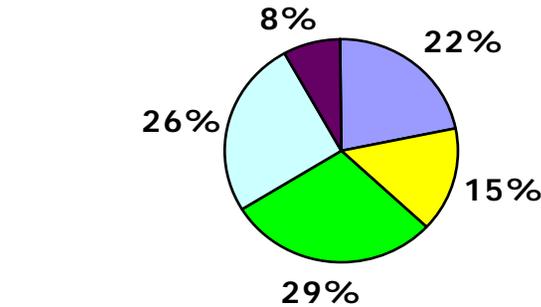
Type System	R&D	Investment	O&S
Ground combat vehicles	5	35	60
Surface ships	<5	30-50	45-65
Jet fighters	5-10	25-50	40-70

Sources: Selected Acquisition Reports, VAMOSOC systems

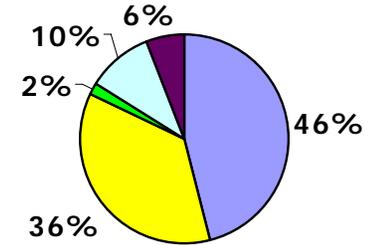
# O&S Cost Patterns Vary - Widely



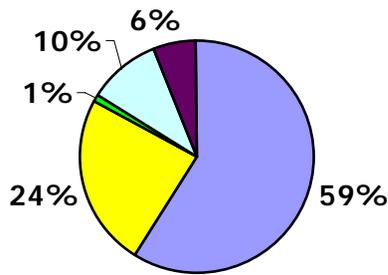
Ships



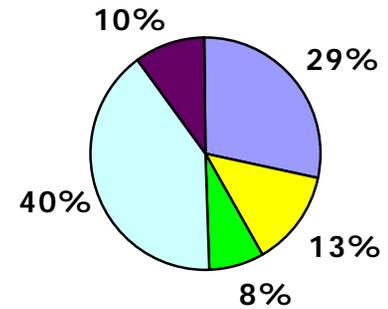
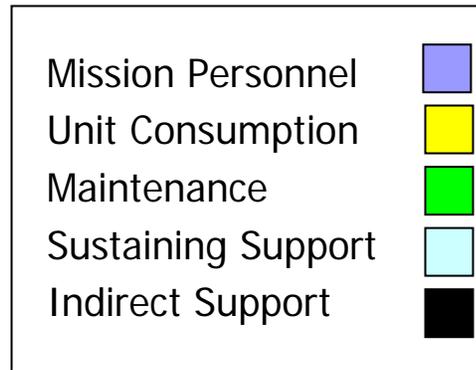
Fixed Wing Aircraft



Rotary Wing Aircraft



Land Vehicles



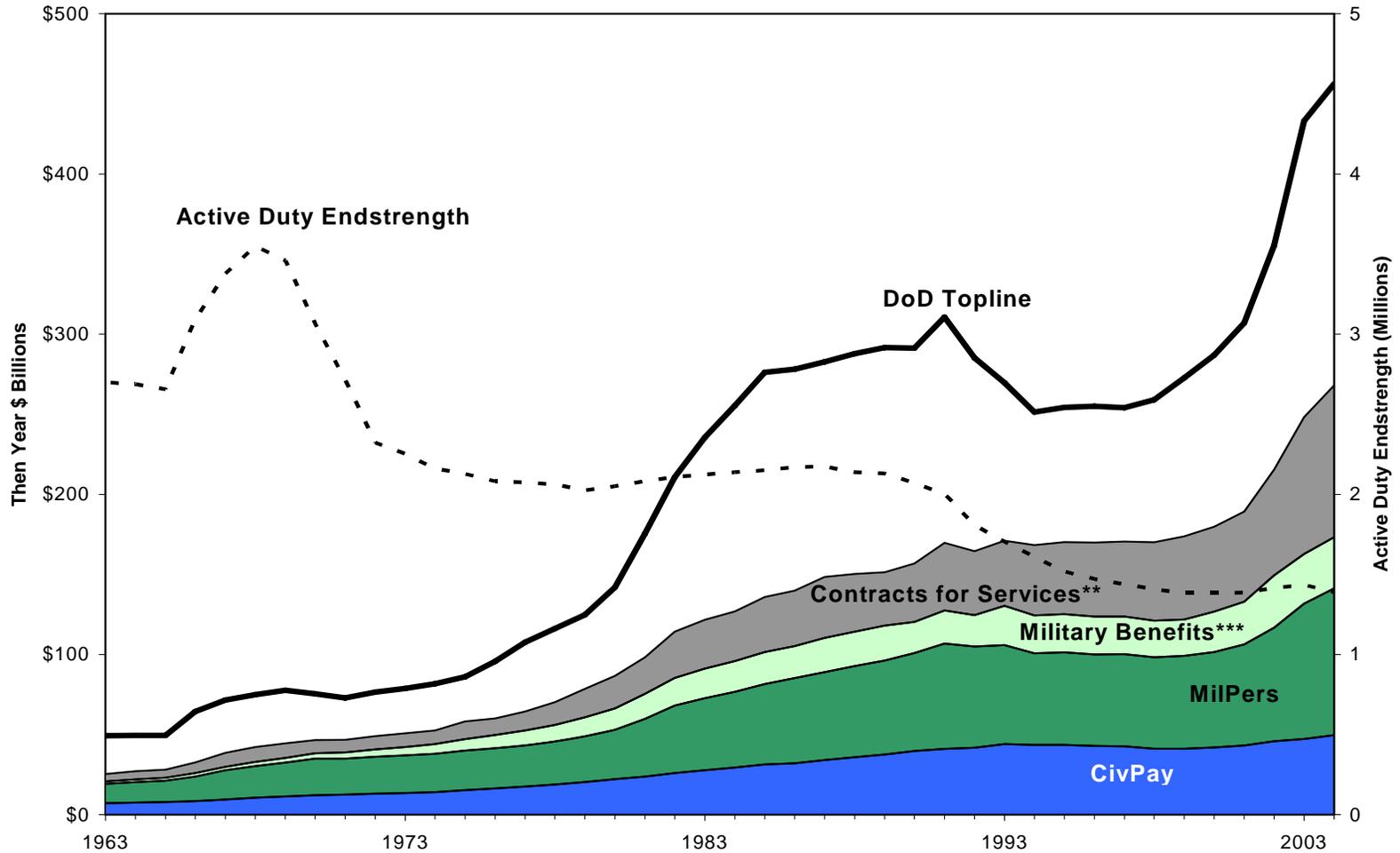
Electronic Systems

# General Trends in O&S Costs

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- Increased interest in O&S issues by senior leadership
- Increased complexity has generally led to increases in O&S costs
- Real growth in costs of personnel and reparable components
- No clear evidence yet that new support strategies, e.g., PBL, have led to cost reductions

# Personnel Costs\* vs. DoD Topline

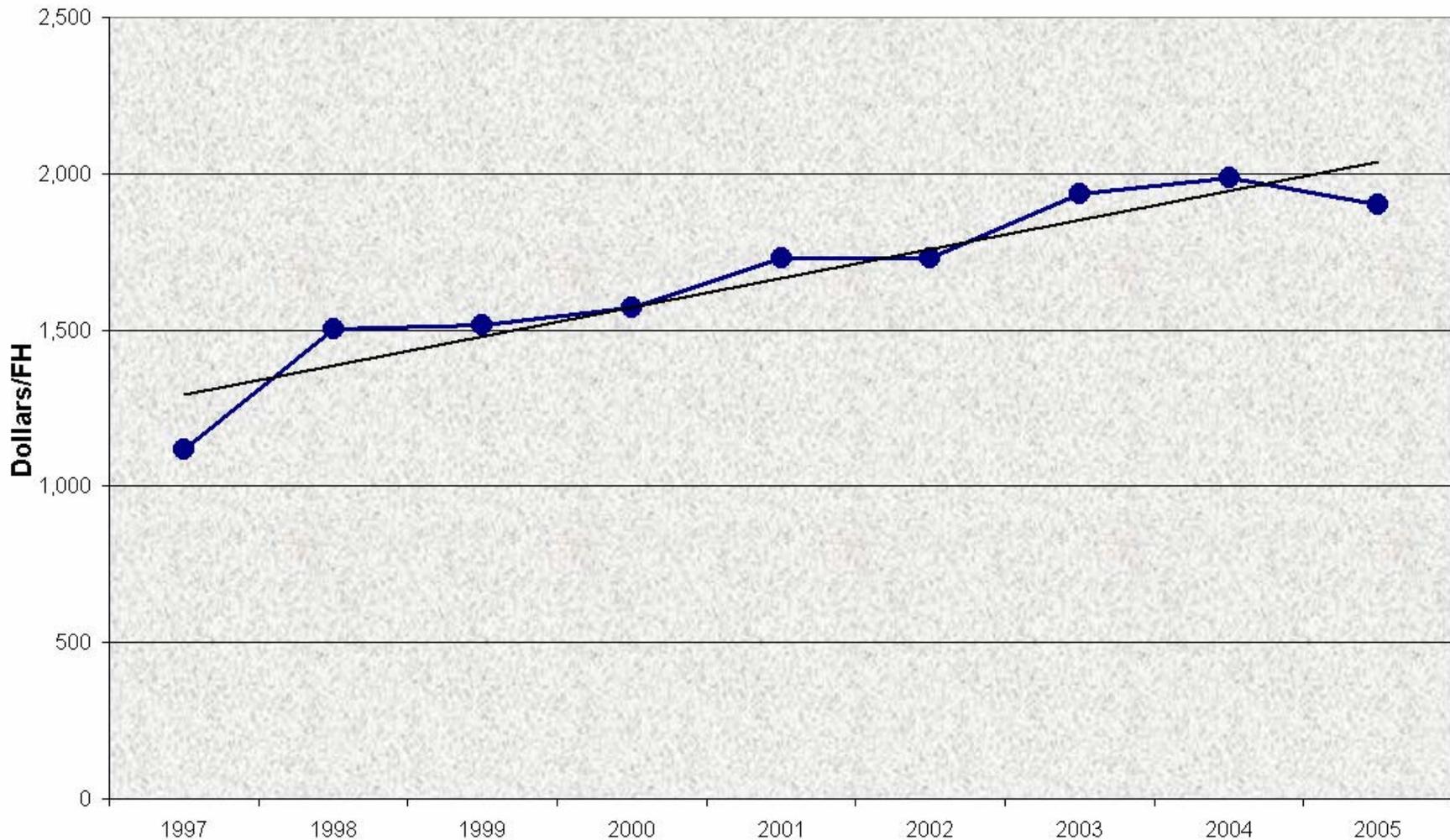


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\* Source: OUSD(C) and WHS, excludes costs not on the DoD budget (e.g., VA)  
 \*\* Source: WHS, which categorizes contracts as Procurement, RDT&E, or Services  
 \*\*\* Retirement, DHP, Family Housing

# Trends in Navy Aviation Depot Level Repairable Costs

(Constant Year 2007 Cost per FH)



Data Retrieved 03 July 2006

# Performance Based Logistics (PBL) for Major Defense Acquisition Programs

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- Use of PBL is growing...*along with Contractor Logistics Support (CLS)*
  - More than 20% of ACAT I/II programs have some form of PBL strategy
  - Arrangements tend to be long-term, sole source, fixed price contracts
- Need for greater visibility into contractor costs
  - Support of programming, budgeting and preparation of estimates based on actuals
  - Stronger basis for contract negotiations
  - Empirical basis for updating business cases
  - Flexibility in adjusting annual programmed or budgeted amounts
- OSD PA&E, OUSD (AT&L) and military departments working to identify contractor cost reporting requirements

# The Practice of O&S Cost Analysis

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- Positive developments
  - Use of VAMOSC increasing
  - Rigor in developing Cost Analysis Requirements Descriptions (CARDS) improving
  - Many initiatives under way to develop better predictive tools
  - More realistic projections of reparables based on analysis of recent trends
- Issues
  - Need tools for estimating manpower reductions
  - More analyses of contractor costs in CLS/PBL arrangements needed
  - Risks can be significant – need to incorporate into estimates

# O&S Cost Issues

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- Greater visibility into contractor costs
- Stemming real cost growth in reparables
- Estimating O&S costs of low observables, UAVs, electronics, and intelligence systems
- Making realistic projections of manpower reductions
- Estimating costs of software maintenance