

USD (A&T) Sets Goals for Total Ownership Cost

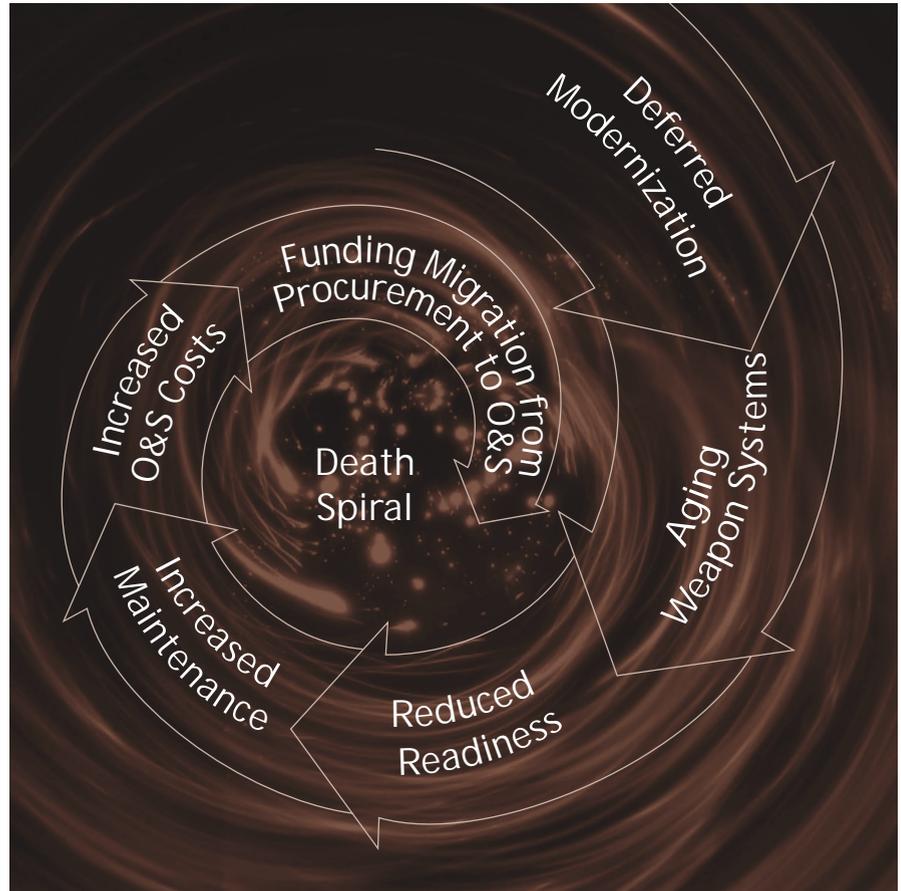
DSAC Challenges DoD Research, Development, Acquisition, and Support Community to Reduce TOC

The Defense Systems Affordability Council (DSAC) has challenged the Department of Defense research, development, acquisition, and support community to reduce the total ownership costs, referred to as R-TOC, of defense systems.

The goal of this R-TOC initiative is to free up funding for modernization and recapitalization of weapon systems. The DSAC, chaired by Dr. Jacques S. Gansler, Under Secretary of Defense (Acquisition & Technology), makes decisions based on a consensus of its members – the Service Acquisition Executives and other senior policy makers from the acquisition, logistics, comptroller, programming, and requirements communities.

Until recently, each Service had a slightly different interpretation of what comprised total ownership cost (TOC). In his Nov. 13, 1998 memorandum defining TOC and the responsibilities of the program manager, Gansler provided the DoD acquisition community a clear understanding of what is meant by TOC in its broadest context. The memorandum also provided a definition of defense systems TOC that directly impacts program managers and the acquisition workforce. This definition is consistent with Life Cycle Cost (LCC). The responsibility of program managers in support of reducing DoD TOC is the continuous reduction of LCC for their systems.

DoD TOC is the sum of all financial resources necessary to organize, equip, sus-



tain, and operate military forces sufficient to meet national goals in compliance with all laws, all policies applicable to DoD, all standards in effect for readiness, safety, and quality of life; and all other official measures of performance for DoD and its components. DoD TOC is comprised of costs to research, develop, acquire, own, operate, and dispose of weapon and support systems, other equipment, and real property; the costs to recruit, retain, separate, and oth-

erwise support military and civilian personnel; and all other costs of business operations of the DoD.

Defense Systems TOC (consistent with the DoD 5000.4M) is defined as Life Cycle Cost (LCC). LCC includes not only acquisition program direct costs, but also the indirect costs attributable to the acquisition program (i.e., costs that would not occur if the program did not exist). For example, indi-

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rect costs would include the infrastructure that plans, manages, and executes a program over its full life and common support items and systems.

The DSAC believes that costs in all TOC categories are too high and can be reduced substantially through better emulation of the best practices of the public and private sectors. They have set demanding TOC top-level objectives for the Department.

While Navy Total Obligational Authority (TOA) is no longer increasing, the Department of Navy is faced with increasing operation and support (O&S) costs for their aging weapon systems. Says Gansler, "The dilemma we face right now involves competing and seemingly unlimited demands for limited resources. We simply cannot afford all that we would like to do and, on our present path, even all that we must do. With fixed resources, we have resorted to 'robbing Peter to pay Paul'; taking from future in-

vestments in modernization to maintain current readiness."

During the 1990s, constrained resources forced the Department of Navy to defer modernization. This deferment resulted in an aging fleet requiring increased maintenance, which, in turn drives O&S costs up and readiness down. With TOA fairly constant, increased O&S costs draw more funds from procurement accounts, resulting in more deferred modernization.

Gansler goes on to say, "Unfortunately, we are trapped in a 'death spiral.' The requirement to maintain our aging equipment is costing us much more each year in repair costs, down time, and maintenance tempo. But we must keep this equipment in repair to maintain readiness. It drains our resources – resources we should be applying to modernization of the traditional systems, and development and deployment of the new systems. So, we stretch out our replace-

ment schedules to ridiculous lengths and reduce the quantities of the new equipment we purchase – raising their costs and still further delaying modernization."

The Navy's TOC efforts are directed toward breaking out of this cycle by facilitating cost reduction across the Service and reinvestment of the savings into force modernization.

DSAC TOC Objectives

- For systems in acquisition, surpass or achieve aggressive "Cost as an Independent Variable" unit cost and total ownership cost targets that are 20 to 50 percent below historical norms for at least 50 percent of programs by FY 2000.
- For fielded systems, reduce the logistics support cost per weapon system per year compared to FY 1997 baselines as follows: 7 percent by FY 2000; 10 percent by FY 2001; and a stretch target of 20 percent by FY 2005.

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