



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY  
RESEARCH DEVELOPMENT AND ACQUISITION  
103 ARMY PENTAGON  
WASHINGTON DC 20310-0103

4 MAY 1998

REPLY TO  
ATTENTION OF

SARD-RP

MEMORANDUM FOR THE ACQUISITION COMMUNITY

SUBJECT: Total Ownership Cost Reduction

Reducing system ownership costs directly contribute to the Army meeting its modernization objectives. The cost of system ownership includes costs associated with operating, modifying, maintaining, supplying, and disposing of weapon/materiel systems. Increasing emphasis at OSD and Army levels is being placed on reducing Operating and Support (O&S) costs and describing program status in terms of system life cycle cost. *Your efforts in this area continue to make a difference.*

The Assistant Secretary of the Army (Research, Development and Acquisition) (ASA(RDA)) memorandum dated April 29, 1997, subject: *Management of the Total Life Cycle for Acquisition Category (ACAT) Systems*, established O&S cost reduction as an acquisition priority. We have made significant progress and instituted a number of highly effective initiatives in the year since the memorandum was published. The purpose of this memorandum is to clarify the requirements of the April 29, 1997 memorandum and provide implementation guidance.

The goal of our campaign is unchanged--to place the Program Managers (PMs) in charge of the total life cycle for assigned systems. This includes responsibility and authority for planning, programming, budgeting, and executing sustainment funds associated with their systems. The Under Secretary of Defense (Acquisition & Technology) actively supports charging the PMs with sustainment responsibilities and authorities. It will take time to completely realize this change. *Many organizations and procedures are affected and concurrence to move sustainment funding responsibility to the PMs will not be automatic. The senior acquisition leadership will continue to work with logistics and financial proponents to reform current processes and to put in place the structures and mechanisms necessary for PMs to perform expanded sustainment functions.*



In order to accelerate the Total Ownership Cost Reduction momentum and move us closer to implementing the requirements of the April 29, 1997 ASA(RDA) memorandum, Milestone Decision Authorities (MDAs) and Program/Project/Product/System Managers will complete the following actions by September 10, 1998:

a. Exploit opportunities to apply existing O&S cost reduction initiatives to assigned commodities (e.g. Operating and Support Cost Reduction Program (OSCR), Modernization Through Spares (MTS), Prime Vendor Support (PVS), Fleet Management, Horizontal Technology Integration (HTI), POM Process Life Cycle Cost Reduction Proposals).

b. Develop Sustainment Cost Management Annexes (SCMAs) to Acquisition Strategies. I am clarifying the SCMA requirement as detailed in the April 29, 1997 ASA(RDA) memorandum in recognition of the fact that present cost accounting systems preclude tracking of all actual O&S cost elements associated with a system. SCMAs should identify a program's top ten O&S cost drivers, detail plans to reduce these costs, and provide metrics to measure progress. The PM is accountable for reducing only those O&S cost elements for which he/she has the reasonable ability to manage and influence. PMs are encouraged to report barriers to TOC reduction and to provide recommendations for minimizing or eliminating them. SCMAs will be prepared for all ACAT level I-III programs and may be tailored based on funding levels, risk, and unique program factors. The O&S cost elements impacting a system are commodity unique. Therefore, PMs will determine the top ten O&S cost drivers and the SCMA format appropriate for their programs. MDAs will review SCMAs on an annual basis.

c. Include program-related O&S costs in the Acquisition Program Baseline (APB). The APB should reflect projected reductions, as a dollar amount or percentage of dollars, to be attained through execution of the PM's O&S cost reduction plan, detailed in the SCMA.

d. MDAs will include O&S cost reduction as an element of the milestone decision review process. O&S costs may be reviewed as a component of the overall program funding profile, as part of the PM's Cost As An Independent Variable (CAIV) analysis, as a stand-alone topic, or any other manner the MDA deems appropriate.

e. MDAs will review O&S cost reduction plans for programs and systems beyond Milestone III prior to approval of any modification or upgrade.

f. PMs should establish O&S Cost Reduction Integrated Process Teams to facilitate planning, execution, and measurement of the actions contained in the SCMA. IPT membership should represent all O&S process participants. PMs should use the IPT as a tool to optimize overall program execution by eliminating "stovepipe" practices that optimize by functional discipline.

Performance evaluation reports for Program/ Product/ Project/ System Managers will document progress to lower O&S costs for assigned systems.

Additional implementation guidance will be published as needed to reflect process improvements facilitating total life cycle management. I know I can count on your full support and aggressive leadership to reduce total ownership costs for Army systems.

The SARDA POC for this action is LTC Samson, SARD-RP, DSN: 664-7149, samsonb@sarda.army.mil.



Kenneth J. Oscar  
Acting Assistant Secretary of the Army  
(Research, Development and Acquisition)

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