



Affordability -Total Ownership Cost (TOC) as a Determinant

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Acquisition Logistics & Total Ownership Cost
Branch Head

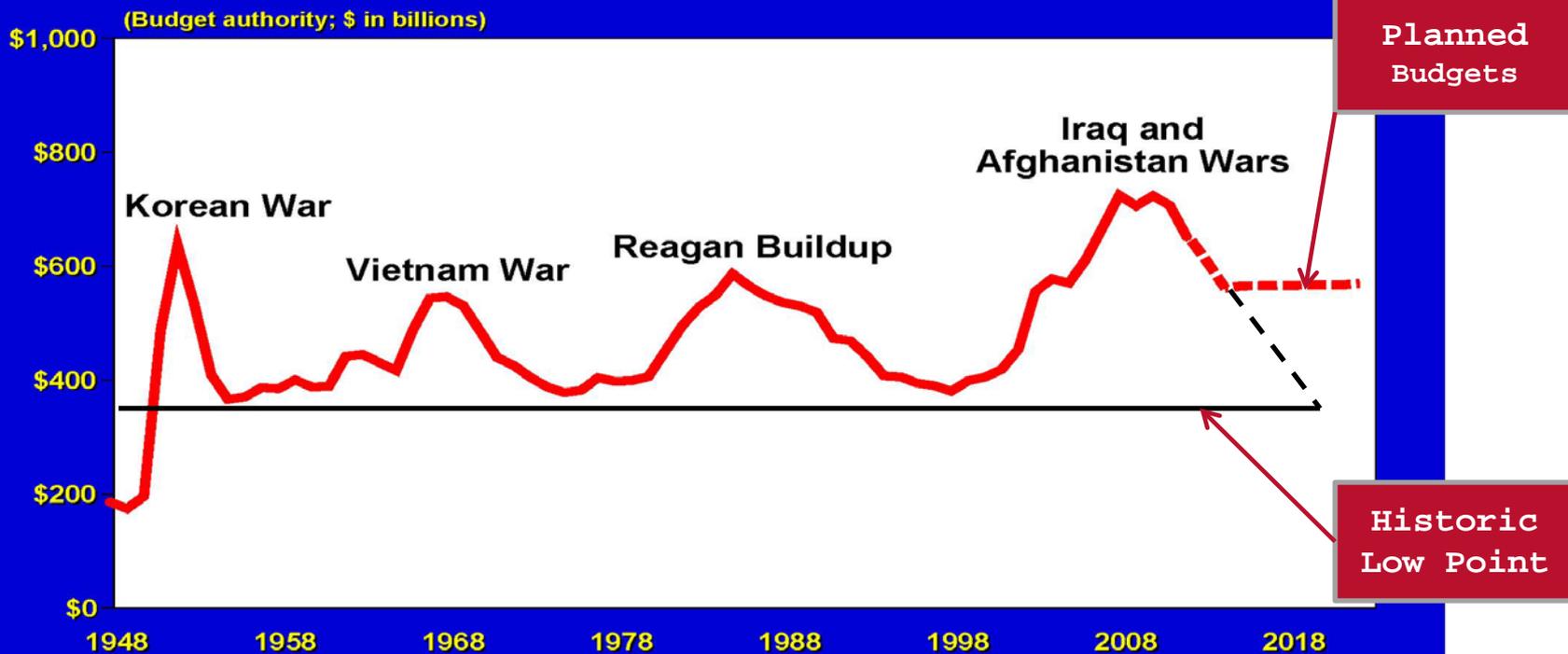
6 June 2012



Post-WWII Defense Spending

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Source: Department of Defense, CBO, OMB

Note: Total Department of Defense funding, including war costs. 2012 level is CBO estimate. 2013-2022 inflation-adjusted from President's request. 2012 constant dollars.

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Definition of Affordability

Affordability is that characteristic of a product or service that enables military users to:

- Acquire it for a reasonable life-cycle cost, that falls within their budget; and in the quantity required
- Use it to meet their performance requirements, at a level of quality that they demand
- Use it whenever they need it, over the expected life span of the product or service

“Program Managers should know where every dollar in their program goes, and affordability involves looking at each and every dollar and challenging to see if you can get more for that dollar.” - Program Mgmt Community of Practice



Total Ownership Cost

“Total Ownership Cost includes all costs associated with research, development, procurement, operation, logistical support and disposal of an individual weapon system including the total supporting infrastructure that plans, manages and executes that weapon system program over its full life.” Source: VCNO, ASN(RDA), and Assistant Commander of the Marine Corps (ACMC) jointly signed letter dated 29 July 2009.

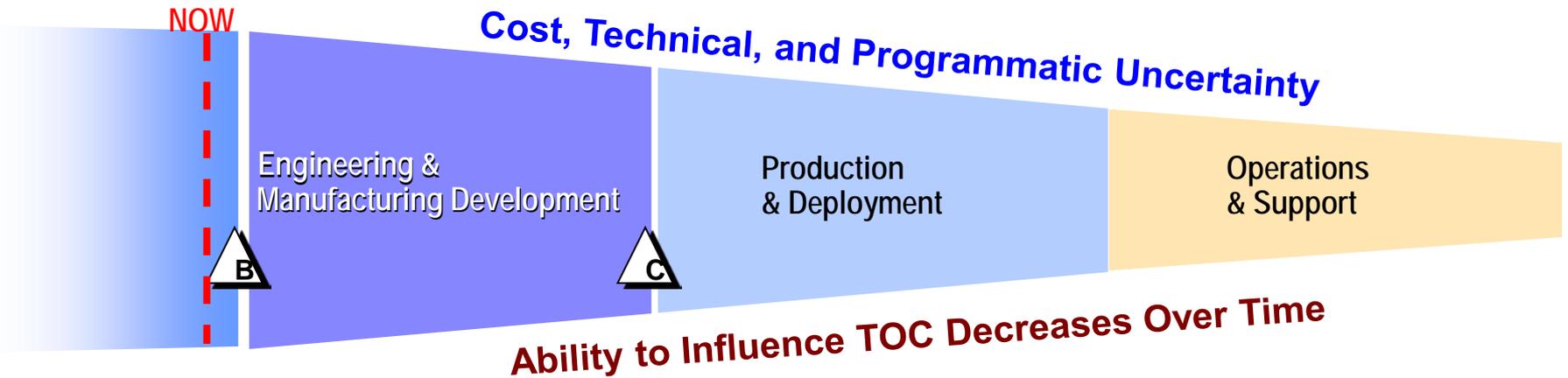
Challenges

- Declining Defense Appropriations (Budgets and Supplementals)
 - Costs are rising (equip, services, labor, health, energy, etc)
 - Declining force structures (Post-Iraq & Afghanistan) – equipment requires recapitalization
- Uncertainty
 - Rapid Changes (technology, geopolitics, economics, globalization security)



TOTAL OWNERSHIP COST CHALLENGES

System Acquisition	20-30%	O&S	70-80%
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SIGNIFICANT UPWARD PRESSURES ON TOTAL OWNERSHIP COSTS

- PROGRAM FUNDING LEVEL
- MATERIAL COST INCREASES
- LABOR COST INCREASES
 - PENSION LIABILITY



Way Ahead

- **Think well past the POM/PR...Create and exploit every opportunity to reduce cost**
- **Develop Catalog of Initiatives that Reduce TOC**
 - Build Base of Unfunded Affordability Initiatives with ROI Potential
- **Develop TOC Performance Capture Methodology**
 - Identify Data Sources with Fidelity to Facilitate Senior Leadership Decision Making

THINK STRATEGICALLY ABOUT HOW TO REDUCE THE COST OF DOING BUSINESS WITHOUT COMPROMISING WARFIGHTING EFFECTIVENESS