

## **Army Strategic Plan for Implementation of Cost Management / Activity Based Costing**

### **I. PURPOSE**

To institutionalize Cost Management in Business Areas throughout the Army, using Activity Based Costing (ABC) where appropriate, to drive continuous cost reduction and productivity improvement.

### **II. GOAL**

The goal of Cost Management is to continually deliver better quality products and services to customers while continually improving cost.

### **III. OBJECTIVES**

- A. Create a Cost Management culture within all Army Business Areas that support mission readiness. Fully integrate Cost Management into management processes of each Business Area to provide both performance and cost measurement information.
- B. Implement Cost Management and assess if ABC is appropriate for cost measurement in the following Business Areas:
  - Depot Maintenance Operations: repair, rebuild, overhaul weapon systems
  - Supply Management: provide spare parts
  - Ordnance: ammunition purchase, receipt, storage, and distribution
  - Information Support: provide and maintain information systems
  - Civilian Human Resources; services and administration
  - Institutional Training: schools
  - Base Operations and Support / Facilities Management: installation base operations
  - Research and Development Laboratories:
  - Test and Evaluation: assess weapon system performance
  - Contracting Process: process of contracting for services and products
  - Acquisition Process: acquire new and support fielded weapon systems
- C. Where determined appropriate, develop and provide local operational managers and front line employees ABC models to permit true cost measurement of activities and business processes, and the costs of individual products and services.
- D. Implement Cost Management / ABC in three years from the time the Strategic Plan is approved.

- E. Establish a formal Cost Management / ABC course for Business Area Leaders, Operational Managers, and Action Officers. Continue to update and standardize current training material for Cost Management / ABC, integrate this material into all Army Management training courses, and support Distance Learning with training CDs. Conduct Prototype(s) in each Business Area to provide on site learning and to assist in understanding full implementation requirements.
- F. Link Cost Management / ABC implementation to Army Quality programs. Cost Management /ABC will support cost and benefit requirements associated with Business Process Improvement (BPI) and Business Process Reengineering (BPR) efforts.

#### **IV. ASSUMPTIONS**

The Cost Management / ABC system(s) chain of command will be the existing chain of command.

#### **V. CONCEPT OF OPERATION**

- A. Upon OSD acceptance of this plan, each Business Area cited above will submit a detailed Cost Management / ABC implementation plan through the HQDA functional proponent for approval by the SA and CSA or their designated approving official.
- B. The U.S. Army Cost and Economic Analysis Center (USACEAC) is the Army proponent for Cost Management. It will provide Cost Management / ABC implementation policy and guidance, and coordinate training, software provision, after action review, and oversight at all levels in each Business Area.
- C. A Business Area's Cost Management / ABC implementation plan will consist of two complementary components: a Strategic Component and an Operational Component. The Strategic component establishes the cyclical process for planning, setting business wide performance metrics, linking operational systems to the Headquarters and Business Area goals and objectives, and assessing Business Area performance. The Operational Component operates a cost management system at the local (tactical) level using ABC or a reasonable alternative cost measurement technique. ABC provides operational managers and front line employees with cost information required to conduct a process of continuous improvement on cost and performance and to make informed decisions that result in efficiencies and improved operations. The Strategic component builds on the Operational component by creating an integrated (vertical) cost management process.
- D. Strategic Cost Management / ABC will be implemented vertically throughout the Business Area.

**Scope:** A Business Area's Strategic Cost Management / ABC system provides performance information for operational improvement and strategic learning, and accurate measurement of product / service costs. The Strategic Cost Management / ABC system must become an integral part of the Business Area's management process in order to sustain continuous improvement and institutionalize a culture to reduce cost consumption.

**Concept:** The Business Area Executive Manager / Commander will institute a Strategic Cost Management / ABC system. USACEAC will coordinate training, software provisions, after action review, and oversight. The Business Area will assume the primary role in leading Cost Management within its unit / span of control. This will:

- Permit an integrated set of operating performance measures, cost measurement (ABC), and continuous process improvement initiatives (BPR / BPI).
- Ensure the Business Area adopts common performance measures - cycle times, products / services quality, cost performance (could be productivity measures, inventory, etc.).
- Ensure cost and performance are on par with mission accomplishments.
- Allow for a centralized, accessible data warehouse.
- Minimize disruption to the chain of command.

**Timing:** Step one – In coordination with USACEAC, Business Area Executive Management / Commander will prototype a Strategic Cost Management / ABC system and assess whether to use ABC or an alternative cost measurement technique. Step two – In coordination with USACEAC, fully implement Strategic Cost Management / ABC throughout the organization.

#### **E. Operational Cost Management / ABC implementation.**

**Scope:** The Operational Component is the local (tactical) level, i.e., garrison, depot, arsenal, school, etc. where the primary management of cost is conducted. The operational level commander or manager will have the role of leading Cost Management / ABC efforts within their span of control.

**Concept:** The operational manager will institute a Cost Management / ABC system to perform activities / processes more efficiently. USACEAC will coordinate training, software provisions, after action review, and oversight at the operational level implementation so as to:

- Permit most rapid transition.
- Ensure a consistent methodology that links activity management, BPR / BPI, and performance measurement.
- Utilize USACEAC's expertise most effectively.
- Minimize disruption to the chain of command.

- Focus directly on entity where cost management occurs and the level most accountable for culture change.

Timing: Complete in three years in coordination with Business Area priorities.

F. The Army's Managerial Costing Steering Committee will be used to coordinate Cost Management / ABC efforts and develop Quarterly Progress reports to OSD and the Quarterly Army Performance Review (QAPR). The Managerial Costing Steering Committee will be revised to include HQDA Staff proponents and Business Areas Executive Manager / Commander responsible for implementing Cost Management.

Principal members will include senior representatives from the following offices:

- ASA (ALT)
- ASA (FM&C)
- ASA (I&E)
- ASA (M&RA)
- ACSIM
- AUDITOR GENERAL
- CHIEF ARMY RESERVE
- CHIEF NGB
- DCSOPS
- DCSLOG
- DISC4
- MACOM Representatives \*
- PA&E
- USACE

\* MACOM representative to be determined by MACOM leadership based on the Business Areas under consideration that operate within respective MACOM.

G. Resource Requirements:

- HQDA (USACEAC) centrally fund common software, training, and tools.
- Business Areas fund studies and implementation.

## **VI. RESPONSIBILITIES**

To successfully implement Cost Management / ABC the Army must undergo a cultural change focused on continuous process improvement and be supported by strong senior leadership commitment, clear objective, employee empowerment and ownership, a move from entitlement to efficiency, a long term commitment, and is backed with institutional training. The following roles and responsibilities are assigned:

A. ASA(FM&C) / USACEAC

1. Develop Army-wide Cost Management / ABC policy and guidance, general practice methodologies, implementation oversight, and training material excluding Business Area specific training materials.
2. Resource the necessary common software (acquire and sustain), training, and tools to implement Cost Management / ABC.
3. Review, validate, and approve contractor support.
4. Coordinate ABC linkage requirement with DFAS to support automated input to the ABC systems.
5. Revise as necessary and administer the Managerial Costing Steering Committee.

B. Headquarters Department of the Army

1. Review and coordinate on the Business Area Cost Management / ABC Implementation plans.
2. Coordinate and revise policy that inhibits implementation.
3. Participate on the Managerial Costing Steering Committee.

C. Business Area

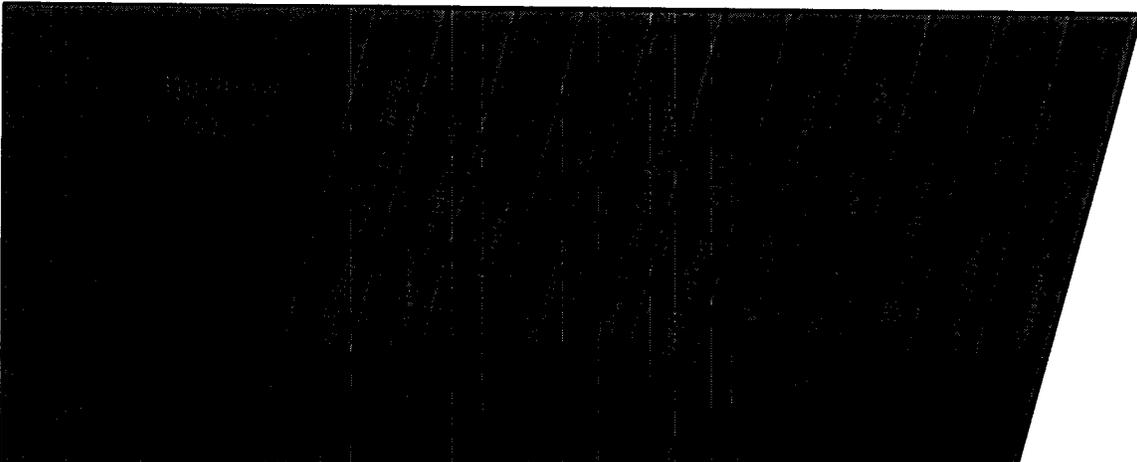
1. Develop a Cost Management implementation plan
2. Resource the necessary Cost Management / ABC studies, and implementation efforts.
3. Integrate continuous process improvement, quality initiatives, i.e.
4. BPR / BPI.
5. Participate on the Managerial Costing Steering Committee.

D. Army Audit Agency (AAA)

1. Assist implementation of Cost Management / ABC through consulting services to include training, prototyping efforts and development of Business Area implementation plans.
2. Participate on the Managerial Costing Steering Committee.

**VII. METRICS**

**Metrics to Measure Army Progress and Outcomes**



<b>% ABC / Funding *</b>													
<b># Sites Planned</b>													
- In Development													
- Implemented													
<b># Models Planned</b>													
- In Development													
- Implemented													

\* Note: Percentage of the Business Area funding where cost is measured using ABC.

**VIII. MILESTONES**

<b>Event</b>	<b>Completion</b>
CSA / SA Approval and Submit Army Plan to OSD	Oct 7
Begin Implementation	Oct 99
Managerial Costing Steering Committee Meeting	Quarterly
OSD Status Reports	Quarterly
Full Implementation	Oct 02