



O&S Cost Management: A Cost Department Member's Perspective

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Presented to:

ICEAA Workshop

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Outline

- Navy Operating & Support (O&S) Cost
- Guidance
- O&S Cost Division Role
- Increased Focus on O&S Cost
- Challenges
- Conclusion



Department of Navy Budget

Summary by Appropriation Group FY 2019 DON Base + OCO Budget

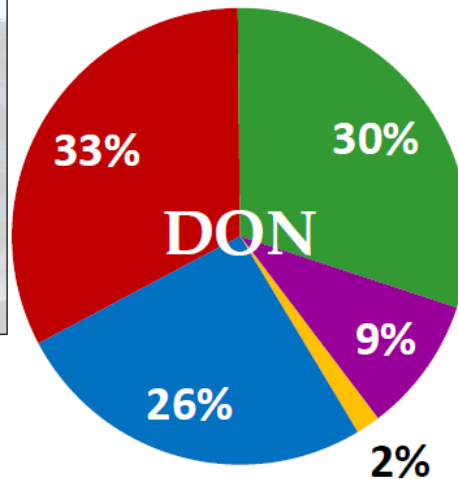
O&M: \$63.4B (\$49.9B Base/ \$13.5B OCO)

Ship Ops & Maint	\$18.3
Aviation Ops & Maint	\$11.4
Base Ops & Support	\$7.7
Marine Corps O&M	\$8.2
Combat/Weapons Support	\$8.7
Service Wide Support	\$4.2
Training and Education	\$2.0
Reserve O&M	\$1.1
Environmental Restoration	\$0.3
Mobilization	\$1.3

● Navy: 33% ● Marine Corps: 28%

FY19: \$194.1B

(\$179.1B Base/ \$15.0B OCO)



Procurement: \$58.5B (\$57.9B Base/\$0.6B OCO)

Ships	\$21.9
Aircraft	\$19.1
Weapons	\$3.7
Marine Corps	\$2.9
Ammunition	\$1.3
Other Navy Procurement	\$9.6

● Navy: 34% ● Marine Corps: 11%

MilPers: \$50.2B (\$49.7B Base/\$0.5B OCO)

Basic Pays	\$20.9
Housing Allowance	\$8.2
Retired Pay Accrual	\$6.3
Health Accrual	\$2.5
Reserve Personnel	\$2.8
Subsistence	\$2.3
Allowances	\$1.1
Special Pays	\$1.6
Other	\$3.7

● Navy: 21% ● Marine Corps: 54%

Infrastructure: \$3.4B (\$3.2B Base/\$0.2B OCO)

MILCON	\$2.8
BRAC	\$0.2
Family Housing	\$0.4

● Navy: 1% ● Marine Corps: 3%

R&D: \$18.6B (\$18.4B Base/ \$0.2B OCO)

Basic Research	\$0.6
Applied Research	\$0.9
Advance Tech Dev	\$0.8
Adv Component Dev	\$4.3
System Dev & Demo	\$6.0
Management Support	\$1.0
Ops Systems Dev	\$5.0

● Navy: 11% ● Marine Corps: 3%

● ● = The percentage of each Service's total budget applied to each appropriation group

Numbers may not add due to rounding

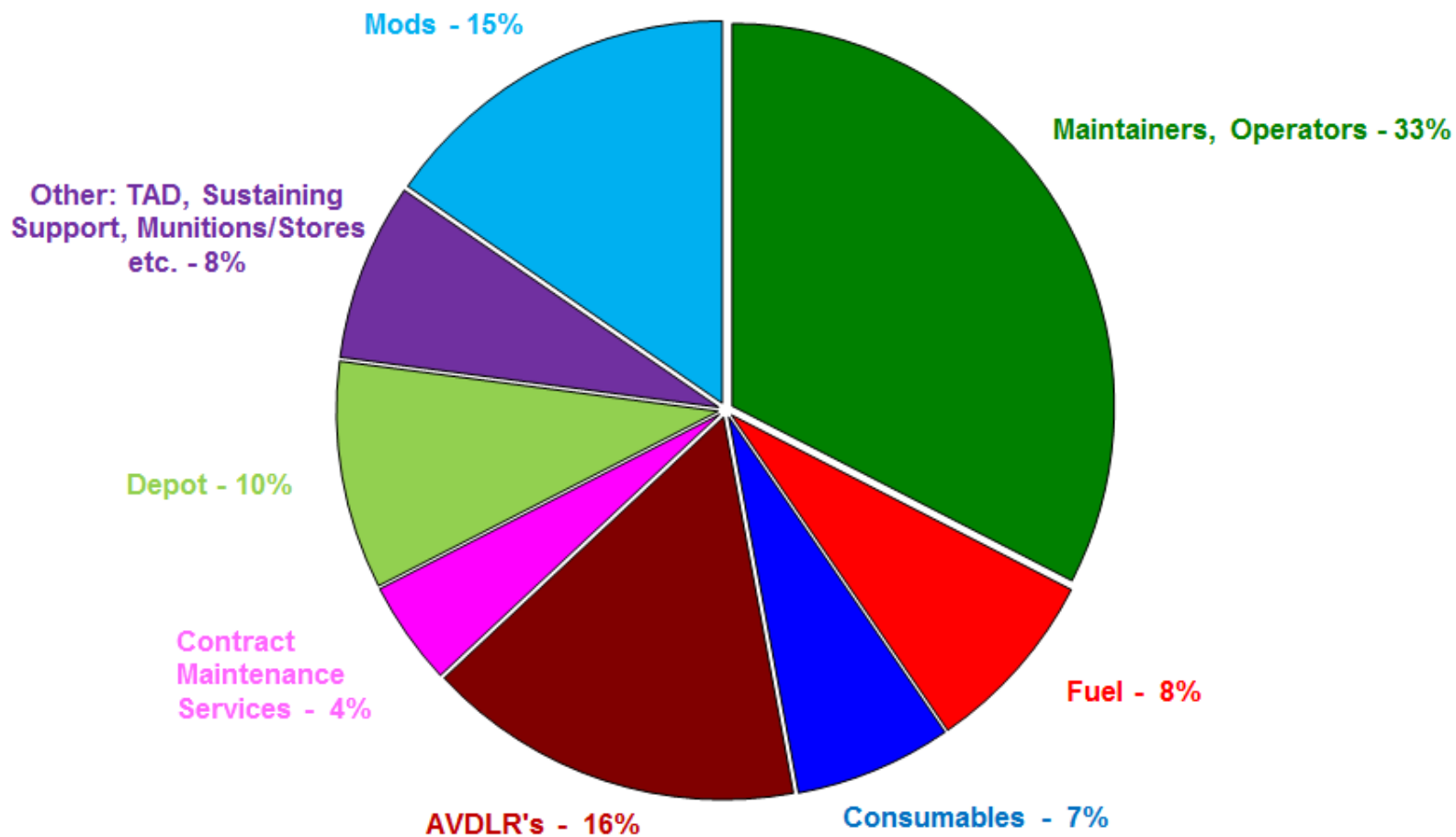
Office of Budget

Source: Dept of the Navy FY 2019 President's Budget Press Brief, 12 Feb 2018



Naval Aviation FY2017

Direct Operating & Support Cost Distribution



Data Retrieved 5 Feb 2018
Department of the Navy, VAMOSC



Strategic Guidance

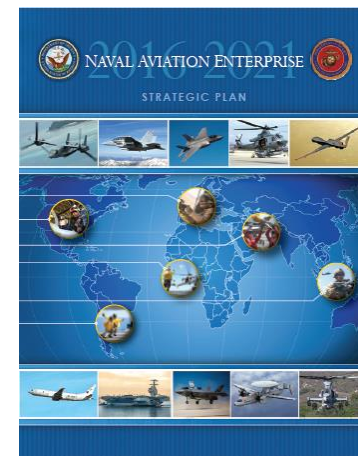
CNO Guidance

ALIGN THE REQUIREMENTS, RESOURCES AND ACQUISITION PROCESSES TO ACHIEVE ACCOUNTABILITY AND DELIVER THE RIGHT CAPABILITY AND CAPACITY ON TIME AND AT THE OPTIMUM COST THROUGHOUT THE LIFECYCLE

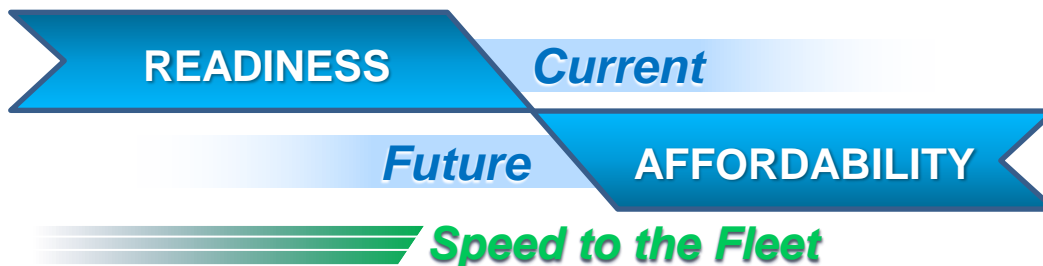


Naval Aviation Enterprise (NAE) Mission Statement:

- Sustain required current readiness and advance future warfighting capabilities at best possible cost
- Strategic Objectives
 1. Current Readiness: drive actions to deliver combat-ready forces to meet current training and operational requirements
 2. Future Readiness: drive actions to achieve required levels of future readiness for what it takes to win at best cost



NAVAIR Commander's Guidance



**O&S Cost Management Activity Importance
Clear and Easy to Spot in Guidance**



Cost Department Strategic Alignment

NAVAIR
COMMANDER'S
GUIDANCE

READINESS

Current

Future

AFFORDABILITY

Speed to the Fleet

Flying Hour Program

-- Analysis support for Repairables/Consumables/Fuel

Life Cycle Cost Est. / Est. At Completion

-- Understand / manage costs

Supplier Analysis

-- Identifying supplier risk for mitigation

Negotiation Support

-- Best deal for government

Integrated Government Schedule (IGS)

-- Execution support

Contractor Performance Analysis

-- Identifying major cost / schedule drivers

Sustainment Analysis

-- Identifying major cost/schedule drivers

Enculturation

-- Implementing training and good business practices

Schedule Risk Assessment (SRA)

-- Identifying schedule risk for mitigation

Analysis Of Alts / Cost Benefit Analysis

-- Future readiness affordability

Cost Estimating & Analysis Products are Key Contributors to Readiness / Affordability / and Speed to the Fleet Analysis



NAVAIR Cost Department Sustainment Cost Group Evolution

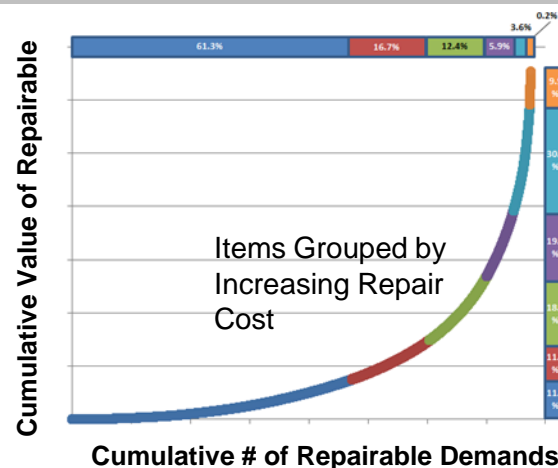
- The IPS/O&S Cost Division Demand Signal has Significantly Increased Over Time. Today We are Supporting Over 24 Program Offices (Acquisition and Legacy Platforms) as Well as External Customers
 - 1980s Cost of Ownership
 - 1990s Affordable Readiness
 - 2000s Total Ownership Cost
 - 2010s Should Cost Initiatives
- Emergence and Expansion of NAVAIR Operating & Support Cost Division has Permitted:
 - Much Deeper Support of Program Teams in Life Cycle Cost Estimating & Analyses
 - Significantly Improved Interaction with Systems Engineering, Logistics, and Contracts Competencies
 - Improved Alignment with Fleet Supply Support: Naval Supply Systems Command Weapon Systems Support



O&S Cost Program Support Examples

- Highlighting Cost Drivers

- High Demand (Low Cost) Components Draw Considerable Attention for Obvious Reasons
- High Cost (Low Demand) Items Must be Kept in Our Sights as Well if we Hope to 'Move the O&S Cost Needle'

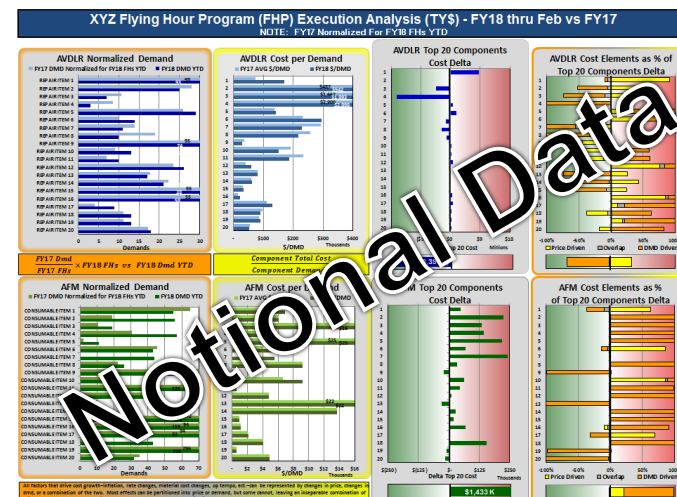


- 4% of the high cost Repairable turn-ins account for 40% of the cost

- 78% of the demand is for low repair cost items that make up only 23% of the cost

- Repairable and Consumable Material Performance Comparison With Prior Year

- Driver Identification
- Demand Contribution
- Cost-Per Contribution



Execution Year Performance Monitoring Providing Synergies with
Budget Development and Traditional Life Cycle Cost Estimating



O&S Cost Performance Monitoring

- Tracking Key Elements of O&S Cost Monthly Overall, by Portfolio, and by Platform

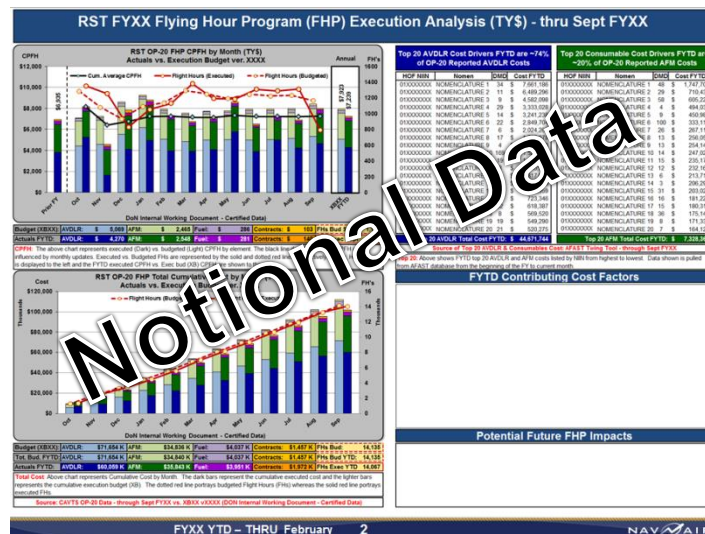
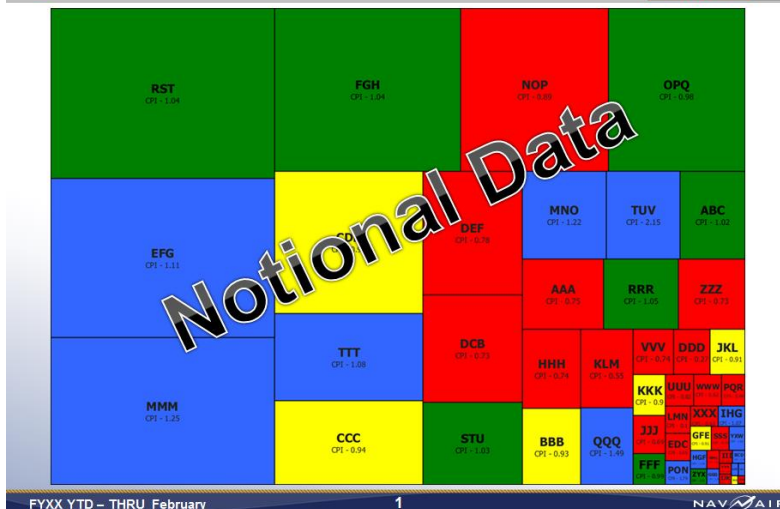
- Providing Execution Year Performance to Plan Insight and Identifying Repairable and Consumable Cost Drivers by Item

CPI_N
1.04

Flying Hour Program Cost by TMS

Budgeted Cost Per Hour / Executed Cost Per Hour

CPI_N = Bud CPH / Exec CPH
CPI_N > 1.05
CPI_N <= 1.05 but > .95
CPI_N <= .95 but > .9
CPI_N <= .9
Box Size
= \$
Executed
as % of
Total





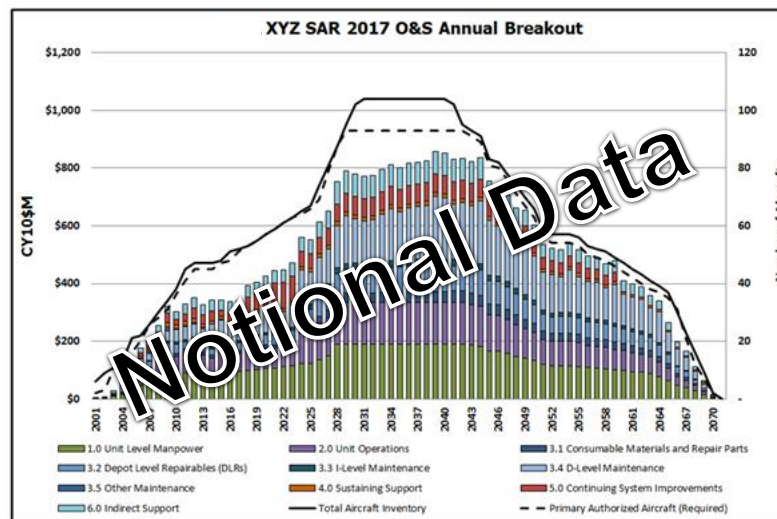
Increased O&S Cost Focus

- NAE O&S Deep Dives
 - Fleet, Supply, NAVAIR Flag Level Executive Committee Oversight of Program Team O&S Costs and Initiatives
- Cross Functional Teams
 - Current Readiness Cross Functional Team
 - Future Readiness Cross Functional Team
 - Integrated Resource Management Team
- Sustainment Cost Reporting
 - Navy Visibility and Management of Operating & Support Costs (VAMOSC) Data / Database Enhancements
 - Plans Now Being Approved and Set on Contract to Collect Costs Similar to Acquisition Cost Reporting
 - Analysis Augmented Through Integration of Various Other Financial / Maintenance / Readiness Datasets



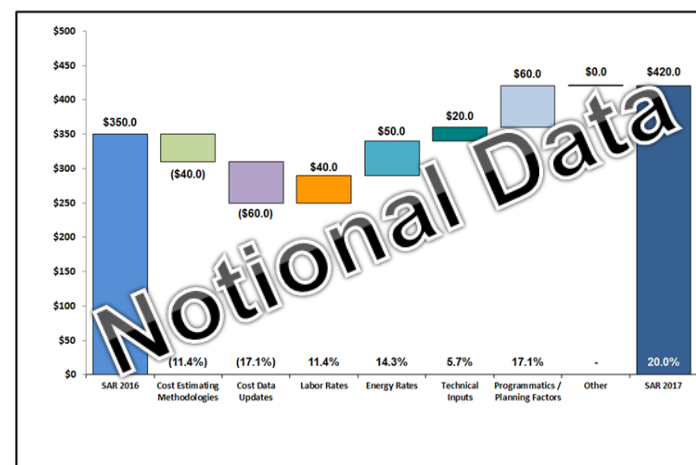
Life Cycle Cost Reporting of O&S

- Annual O&S Cost Estimate Updates Inform Congressional Selected Acquisition Reports (SAR) as well as Budget Development and Refinement



OPERATING & SUPPORT Change Tracker (CY\$M)

- Change Trackers Used to Articulate Estimate Movement Over Time and Inform SAR Variance Reporting by Category





Challenges

- Significant Increases in Aircraft and Weapon System Complexity and Capability
- Service Life Management / Extension as Fleet Ages
- Cost Data Availability Gaps
- Readiness Recovery
- Speed to the Fleet While Keeping an Eye on Long Term Affordability



Conclusion

READINESS

Current

Future

AFFORDABILITY

Speed to the Fleet

- More Resources and Attention Than Ever Before are Being Applied to Sustainment and O&S Cost Estimating and Analysis
- The Greater Emphasis on Operating & Support Costs has Resulted in Improved Forecasting of Near and Long-Term Requirements and is Enabling More Effective Cost Management
- Offsetting Cost Pressures Remain and Will Likely Continue to Emerge Necessitating Continual Vigilance and Course Correction

Effective Operating & Support Cost Management Requires Cross Functional Resources, Data Transparency, and Continuous Performance Monitoring