

**TAB E**

**MARINES**

**MARADMIN 320/03**

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**Date signed: 07/07/2003 MARADMIN Number: 320/03**

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SUBJ/ACTIVITY BASED RESOURCE MANAGEMENT (ABRM) IMPLEMENTATION//

REF/A/DOC/ABRM-WORKING GROUP CHARTER DTD/25SEP2002//

REF/B/MEMO/ACMC,MROC,DM 45-2003/-//

REF/C/DOC/DC IL/29APR2003//

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NARR/REF A IS THE ABRM WORKING GROUP CHARTER SIGNED BY DC, P&R AND DC, I&L. REF B IS MROC DECISION MEMORANDUM 45-2003, WHICH APPROVED THE ABRM WORKING GROUP RECOMMENDATIONS. REF C IS I&L ROUTE SHEET SOLICITING PERFORMANCE MEASURE VALIDATION AND FEEDBACK FROM HQMC PROGRAM MANAGERS.//

GENTEXT/REMARKS/1. BACKGROUND. SINCE LATE 1999, MARINE CORPS INSTALLATIONS HAVE AGGRESSIVELY BUILT A LOCAL CAPABILITY TO SHOW THE COST AND PERFORMANCE OF ALL BASE FUNCTIONS THROUGH ACTIVITY BASED COSTING (ABC). IT IS NOW TIME TO LEVERAGE THIS LOCAL COMMANDERS' COST-MANAGEMENT TOOL TO SUPPORT ENTERPRISE-WIDE (MARINE CORPS-WIDE) DECISION-MAKING. DURING THE POM06 BUILD, WE WILL CREATE INSTITUTIONAL COST AND PERFORMANCE METRICS FOR INSTALLATION SUPPORT. ADDITIONALLY, WE WILL DEVELOP AN ENTERPRISE-WIDE ABRM IMPLEMENTATION PLAN.

A. THE MARINE CORPS, IN EXECUTING ITS TITLE 10 RESPONSIBILITIES TO MAN, TRAIN, EQUIP, AND SUSTAIN FORCES TO PROVIDE WARFIGHTING CAPABILITIES TO THE COMBATANT COMMANDERS REQUIRES THAT RESOURCES BE OPTIMALLY APPLIED TO FUNCTIONS THAT SUPPORT OUR STRATEGIC PLANS.

B. THE MARINE CORPS IS INCREASINGLY UNDER PRESSURE FROM OSD, DON, OMB AND CONGRESS TO LINK PERFORMANCE WITH RESOURCES, ALSO KNOWN AS PERFORMANCE BASED BUDGETING (PBB). EXTERNAL INFLUENCES, SUCH AS THE PRESIDENT'S MANAGEMENT AGENDA, SEA ENTERPRISE, AND MANAGEMENT INITIATIVE DECISIONS (MID) 901 AND 910 REQUIRE THAT WE DEVELOP THE PROCESS AND STRUCTURES TO QUANTITATIVELY AND QUALITATIVELY DESCRIBE OUR REQUIREMENTS.

2. ABRM WORKING GROUP (ABRM WG).

A. REF A ESTABLISHED THE ABRM WG WITH A MISSION TO "ASSESS OPPORTUNITIES TO INTEGRATE ABC DATA AND PERFORMANCE MEASUREMENT INFORMATION INTO THE CURRENT USMC POM AND BUDGET PROCESS ('AS-IS'); AND, IDENTIFY AND RECOMMEND POSSIBLE IMPROVEMENTS TO THE CURRENT POM/BUDGET PROCESSES ('TO-BE'), IN ORDER TO LEVERAGE ABC/M INFORMATION TO BEST SUPPORT RESOURCE ALLOCATION DECISION MAKING." THE ABRM WG, COMPRISED OF MEMBERS FROM I&L, P&R, M&RA, MFP, MFL AND MATCOM (MARCORLOGCOM) CONDUCTED THREE CONFERENCES BETWEEN OCT 2002 AND JAN 2003 TO IDENTIFY WAYS TO ACCOMPLISH THIS MISSION.

B. THE ABRM WG IDENTIFIED THREE KEY INSERTION POINTS THROUGH WHICH ABRM COULD IMPACT THE MARINE CORPS' POM PROCESS: (1) CORE SETTING, (2) INITIATIVE DEVELOPMENT, AND (3) INITIATIVE REVIEW. THESE INSERTION POINTS WERE IDENTIFIED AS LOGICAL PLACES TO LEVERAGE COST

AND PERFORMANCE INFORMATION TO ENHANCE RESOURCE ALLOCATION DECISION-MAKING.

C. THE WG'S ACTIONS WERE BRIEFED TO DC, P&R, DC, I&L AND THE MROC. THE MROC APPROVED COA AND WAY AHEAD IS FOUND IN REF B. THIS MARADMIN SPECIFIES ACTIONS REQUIRED TO IMPLEMENT THE MROC DECISION. SPECIFICALLY, THE MROC APPROVED TWO CRITICAL ENABLERS, THREE SUPPORTING FUNCTIONS, A NEAR-TERM WAY AHEAD AND THE DEVELOPMENT OF A PLAN TO APPLY COST AND PERFORMANCE MANAGEMENT TO THE BUSINESS PRACTICES OF THE REST OF THE MAGTF.

3. CRITICAL ENABLERS. SUCCESSFUL IMPLEMENTATION OF ABRM REQUIRES THAT THE MARINE CORPS IMPLEMENT THE FOLLOWING CRITICAL ENABLERS IOT LEVERAGE COST AND PERFORMANCE DATA TO ENHANCE POM DECISION-MAKING AND MEET THE EXTERNAL PBB REQUIREMENT.

A. PERFORMANCE MEASURES. PERFORMANCE MEASURES ARE A KEY ENABLER FOR TRANSFORMING ABC DATA INTO INFORMATION ABOUT THE OUTPUTS (THE LEVEL OF ACTIVITY OR EFFORT THAT WILL BE PROVIDED OR PRODUCED) AND OUTCOMES (A DESCRIPTION OF THE INTENDED RESULTS, EFFECT OR CONSEQUENCE) AND WILL SUPPORT ENHANCED POM DECISION MAKING. OUR INITIAL EFFORTS IN POM06 WILL FORM THE FOUNDATION FOR A STANDARD SET OF INSTITUTIONAL PERFORMANCE MEASURES WITHIN AN OVERARCHING STRATEGIC FRAMEWORK.

B. ENHANCED HQMC PROGRAM SPONSOR ROLE. HQMC PROGRAM SPONSORS ARE EXPECTED TO ACTIVELY ENGAGE STAKEHOLDERS AND OPBUD HOLDERS THROUGH THE DEVELOPMENT OF PERFORMANCE MEASURES AND SUBSEQUENT ANALYSIS OF COST AND PERFORMANCE DATA IN ORDER TO MAKE VALUE-ADDED RECOMMENDATIONS DURING THE RESOURCE ALLOCATION PROCESS.

4. SUPPORTING FUNCTIONS. AT THE TACTICAL LEVEL, THE ABRM WG IDENTIFIED THREE SUPPORTING FUNCTIONS THAT ARE REQUIRED TO SUPPORT THE CRITICAL ENABLERS. THE SUPPORTING FUNCTIONS ARE:

A. STANDARDIZATION AND RATIONALIZATION OF DATA ELEMENTS. THIS SUPPORTING FUNCTION IS COMPOSED OF TWO SEPARATE ACTIONS AFFECTING MARINE CORPS PROGRAMMING CODES (MCPC) AND SABRS FISCAL CODES.

(1) ANNUAL MCPC REVIEW. THE DECISION ELEMENTS USED TO BUILD OUR PROGRAMS (MCPC'S) WILL UNDERGO A DELIBERATE REVIEW PRIOR TO EACH POM CYCLE TO ENSURE THAT THE MOST RELEVANT ELEMENTS ARE AVAILABLE FOR DECISION MAKERS. MCPC'S ARE DATA ELEMENTS THAT CAPTURE ALL FUNDING FOR A PROGRAM REGARDLESS OF APPROPRIATION OR OTHER DATA ELEMENTS. DC, P&R IS RESPONSIBLE FOR THE MCPC STRUCTURE.

(2) ANNUAL SABRS FISCAL CODE REVIEW. THE COST CATEGORIES CAPTURED IN OUR ACCOUNTING SYSTEM AND USED TO POPULATE THE ABC MODELS MUST SUPPORT AND REINFORCE OUR DECISION-MAKING ELEMENTS (MCPC'S). IN ORDER TO COMPARE EXECUTION TO POM AND BUDGET DATA, AN ANNUAL REVIEW OF FISCAL CODES WILL BE CONDUCTED TO REDUCE THE NUMBER OF CODES TO THE MOST CRITICAL FEW WHILE BALANCING OUR INSTITUTIONAL NEEDS FOR GRANULARITY OF DATA.

B. ABC MODEL STANDARDIZATION. THE ABC MODELS PROVIDE A MEANS TO VIEW EXECUTION OF FUNDING ACROSS APPROPRIATION AND RESOURCE STOVEPIPES. A CONFIGURATION CONTROL BOARD (CCB) WILL BE ESTABLISHED TO CONTINUALLY DEFINE AND REFINE THE REQUIREMENT FOR CONSISTENT AND STANDARD HIGH-LEVEL MODEL STANDARDS ACROSS THE INSTALLATIONS.

C. PROGRAM BUDGET DOCUMENTATION DATABASE (PBDD). PBDD, A WEB-BASED SYSTEM ACCESSIBLE TO ALL MARINE CORPS USERS, IS THE CORPS' PRIMARY MEANS OF GATHERING DATA FOR PROGRAM DEVELOPMENT. IT FACILITATES CONTROLLED, ORDERLY, TIMELY STAFFING AND EDITING OF INITIATIVES BY PROGRAM SPONSORS, ADVOCATES AND HQMC DEPARTMENTS. PBDD COLLECTS AND PRESENTS DATA FOR POM DELIBERATIONS AND WILL FACILITATE THE COLLECTION AND DISPLAY OF THE STANDARDIZED PERFORMANCE MEASURES AND COST DATA.

5. IMPLEMENTATION. ABRM WILL BE IMPLEMENTED IN THREE PHASES, GUIDED BY THE ABRM WG. WHILE THE IMPLEMENTATION IS CONDUCTED IN

PHASES, THE PROCESS IS CONTINUOUS AND INVOLVES ANNUAL VALIDATION OF PERFORMANCE MEASURES TO ENSURE WE ARE MEASURING AND PERFORMING THOSE FUNCTIONS THAT CONTRIBUTE TO THE READINESS OF OUR CORPS. THE PHASES CONSIST OF THE FOLLOWING ACTIONS AND DELIVERABLES:

A. PHASE I: IMPLEMENTATION OF ABRM AT INSTALLATIONS AND DEVELOPMENT OF A PLAN TO IMPLEMENT ABRM ENTERPRISE-WIDE. THIS PHASE WILL BE COMPLETED BY FEB 2004. ACTIONS REQUIRED DURING THIS PHASE INCLUDE:

(1) HQMC PROGRAM SPONSOR IDENTIFY PERFORMANCE MEASURES CURRENTLY BEING USED (REF C APPLIES). PERFORMANCE MEASURES IDENTIFIED WILL BE USED DURING POM 06 TO SUPPORT CORE SETTING AND INITIATIVE SUBMISSION AND REVIEW. ADDITIONAL GUIDANCE WILL BE PROVIDED VIA SEPCOR.

(2) THE ABRM WG WILL PRESENT A PLAN TO DC, I&L AND DC, P&R TO IMPLEMENT PHASES II AND III NLT FEB 2004

B. PHASE II: IMPLEMENTATION OF COST AND PERFORMANCE MANAGEMENT WITHIN THE CSSE AND ACROSS SE ACTIVITIES NOT INVOLVED IN THE INITIAL INSTALLATION ABC MODELING INITIATIVE (E.G., MARINE CORPS LOGISTICS COMMAND, FSSG'S, MARINE CORPS RECRUITING COMMAND).

C. PHASE III: IMPLEMENTATION OF COST AND PERFORMANCE MANAGEMENT ACROSS THE BUSINESS PROCESSES OF ALL REMAINING ELEMENTS OF THE MAGTF (I.E., MARFORS/CE, GCE, ACE).

6. ACTIONS.

A. ABRM WG MEMBERS. THE WG WILL CONTINUE TO MEET AS REQUIRED TO GUIDE ABRM IMPLEMENTATION AND WILL ASSIST IN EVALUATING AND COORDINATING ALL REQUIRED ACTIONS.

(1) ACT AS THE OVERARCHING INTEGRATED PRODUCT TEAM (IPT).

COORDINATE, DECONFLICT AND INTEGRATE THE ACTIONS OF THE PERFORMANCE MEASURES, CCB, AND SYSTEMS IPT'S.

(2) REVIEW THE ABRM WG CHARTER (REF (A)) AND RECOMMEND NECESSARY REVISIONS TO THE CHARTER TO DC, I&L AND DC, P&R TO IMPLEMENT ABRM BEYOND POM 06.

(3) USE LESSONS LEARNED FROM POM06 TO CODIFY ABRM THROUGH AN ABRM MCO/DIRECTIVE AND/OR MODIFICATIONS TO EXISTING DIRECTIVES.

B. DC, I&L. HQMC LEAD FOR IMPLEMENTATION OF ABRM.

(1) CONTINUE TO CO-CHAIR ABRM WG.

(2) ESTABLISH, CHAIR, AND CHARTER A PERFORMANCE MEASURES (PM) IPT. THE PM IPT WILL:

(A) DEVELOP A PLAN OF ACTIONS AND MILESTONES FOR ACCOMPLISHING THE OBJECTIVES AS SET FORTH IN THIS DOCUMENT BY 15 JULY 2003.

(B) LEVERAGE EXISTING INSTALLATION STRATEGIC AND CAMPAIGN PLANS, OSD'S BALANCED SCORECARD, OMB'S PERFORMANCE ASSESSMENT RATING TOOL, AND MEASURES FROM THE PRIVATE SECTOR. FINALIZE MATRIX OF POTENTIAL MEASURES FOR EACH INSTALLATION PROCESS. REF C APPLIES.

(C) ASSIST AND SUPPORT HQMC PROGRAM SPONSORS DURING SUBORDINATE MEETINGS WITHIN THEIR FUNCTIONAL AREA.

(D) COORDINATE, CONSOLIDATE, AND PUBLISH A LIST OF CURRENT PERFORMANCE MEASURES BY 15 AUG 2003 TO ENSURE THAT ALL OPERATING BUDGET HOLDERS AND HQMC PROGRAM MANAGERS ARE COGNIZANT OF STANDARD MEASURES.

(E) DEVELOP A CONCEPT OF OPERATIONS FOR THE COLLECTION AND DISPLAY OF MEASURES DATA.

(3) ESTABLISH, CHAIR, AND CHARTER A CCB FOR THE CONTINUED STANDARDIZATION AND CONTENT CONTROL OF THE ABC MODELS BY 1 AUG 2003.

THE CCB WILL RECEIVE INPUT FROM FUNCTIONAL MANAGERS AND ABC MODELERS TO DETERMINE NECESSARY POLICY. REVIEW AND AUTHORIZE PROPOSED CHANGES TO THE ABC MODEL STANDARDS AND THE DATA REQUIREMENTS FOR THE ABC DATA-WAREHOUSE.

C. DC, P&R.

(1) CONTINUE TO CO-CHAIR ABRM WG.

(2) SUPPORT DC, I&L DURING IMPLEMENTATION OF ABRM. ESTABLISH, CHAIR, AND CHARTER A SYSTEMS IPT. THE SYSTEMS IPT WILL:

(A) ANNUALLY REVIEW AND STAFF THE MCPC'S TO HQMC PROGRAM SPONSORS AND OPBUD HOLDERS FOR REVIEW AND RECOMMENDATIONS.

(B) ANNUALLY REVIEW THE FISCAL CODES WITHIN SABRS TO DETERMINE IF RELATIONSHIPS BETWEEN MCPC'S AND SABRS CAC'S REQUIRE MODIFICATION. BY 1 OCT ANNUALLY, INITIATE TABLE CHANGES IN SABRS AND COMMUNICATE THE RESULTS TO THE OPBUD HOLDERS AND HQMC PROGRAM SPONSORS.

(C) MAKE APPROPRIATE MODIFICATIONS IN PBDD TO COLLECT AND DISPLAY PERFORMANCE MEASURES AND COST DATA BY NOVEMBER 2003.

(D) DC, P&R IS RESPONSIBLE TO THE DON AND OSD FOR VALIDATION, VERIFICATION, AND AUTHENTICATION (VV&A) OF ALL PERFORMANCE AND PRICING MODELS (PPM'S). THIS RESPONSIBILITY REQUIRES AN ANNUAL REVIEW OF ALL PPM'S AND PERFORMANCE MEASURES TO ENSURE THAT RESOURCE REQUIREMENTS ARE CLEARLY ARTICULATED.

D. HQMC DEPARTMENTS AND TECOM. CARRY OUT YOUR ASSIGNED ROLES AS PROGRAM SPONSORS FOR FUNCTIONS IDENTIFIED IN 6.D.(6). AS REQUIRED, PROVIDE SUBJECT MATTER EXPERTS TO LEAD AND COORDINATE WORKING GROUPS TO DEFINE PERFORMANCE MEASURES WITH PM IPT OVERSIGHT.

(1) COORDINATE WITH INSTALLATION AND INTERMEDIATE COMMAND FUNCTIONAL COUNTERPARTS TO ESTABLISH, STANDARDIZE AND COLLECT PERFORMANCE MEASUREMENT DATA.

(2) PROVIDE THE APPLICABLE DATA EXHIBITS TO THE ABRM WG FOR INCORPORATION WITH RELEVANT COST DATA AND ARCHIVAL NLT 15 OCT, ANNUALLY BEGINNING IN 2003.

(3) BE PREPARED TO DISCUSS OVERALL HEALTH OF PROGRAMS AND PERFORMANCE RESULTS WITHIN YOUR AREA OF RESPONSIBILITY DURING ANNUAL POM/PR CORE SETTING.

(4) REVIEW ALL POM INITIATIVES WITHIN YOUR AREA OF RESPONSIBILITY, CONDUCT A RISK ASSESSMENT, AND PROVIDE COMMENTS IN PBDD AND DURING PEG AND PWG DELIBERATIONS REGARDING THE VERACITY AND CRITICALITY OF THE REQUIREMENT AS COMPARED TO OTHER INITIATIVES REVIEWED AND THE EXPECTED PERFORMANCE OF THE FUNCTION GIVEN PROPOSED FUNDING LEVELS.

(5) PROVIDE COMMENTS AND RECOMMENDATIONS ON PROPOSED CHANGES AND STANDARDIZATION OF THE ABC MODELS AND FISCAL CODES WITHIN SABRS IN ORDER FOR THESE SYSTEMS TO PROVIDE DESIRED COST-ACCOUNTING INFORMATION FOR EXTERNAL AND INTERNAL REPORTING PURPOSES.

(6) RESPONSIBILITY FOR ACTIONS IDENTIFIED ABOVE FOR INSTALLATION FUNCTIONS ARE AS FOLLOWS (READ IN TWO COLUMNS):

|      |                                            |
|------|--------------------------------------------|
| DEPT | STANDARD PROCESS                           |
| AVN  | PROVIDE AVIATION OPERATION SUPPORT         |
| C4   | PROVIDE VOICE                              |
| C4   | PROVIDE DATA SERVICES                      |
| C4   | PROVIDE GROUND ELECTRONIC MAINTENANCE      |
| I&L  | PROVIDE REAL PROPERTY AND LAND MGMT SVCS   |
| I&L  | PROVIDE FACILITIES SERVICES                |
| I&L  | SUSTAIN, RESTORE AND MODERNIZE FACILITIES  |
| I&L  | PROVIDE UTILITIES                          |
| I&L  | PROVIDE ENVIRONMENTAL SERVICES             |
| I&L  | PROVIDE FIRE PROTECTION AND EMERGENCY SVCS |
| I&L  | PROVIDE COMMAND SUPPORT                    |
| I&L  | MANAGE BUSINESS PRACTICES                  |
| I&L  | PROVIDE HOUSING                            |
| I&L  | PROVIDE TRANSPORTATION                     |
| I&L  | PROVIDE SUPPLY SERVICES                    |
| I&L  | PROVIDE PROCUREMENT SERVICES               |
| I&L  | PROVIDE FOOD SERVICES                      |
| JA   | PROVIDE LEGAL COUNSEL AND SERVICES         |
| M&RA | PROVIDE PERSONNEL SUPPORT                  |
| M&RA | DEVELOP FAMILY READINESS                   |
| M&RA | PROVIDE RECREATIONAL OPPORTUNITIES         |

M&RA DEVELOP PHYSICAL WELLNESS  
M&RA PROVIDE PERSONNEL SUPPORT SERVICES  
M&RA PROVIDE RETAIL/RESALE GOODS AND SERVICES  
M&RA PROVIDE LODGING SERVICES  
M&RA PROVIDE INFORMATION AND REFERRAL SERVICES  
M&RA PROVIDE PERSONAL AND PROFESSIONAL DEVELOPMENT  
M&RA PROVIDE CIVILIAN TRAINING  
PA MANAGE COMMUNITY RELATIONS  
PP&O PROVIDE SECURITY  
P&R MANAGE FINANCIAL RESOURCES  
REL PROVIDE RELIGIOUS SUPPORT  
SD MANAGE SAFETY PROGRAMS

TECOM PROVIDE MILITARY TRAINING

TECOM PROVIDE RANGE MANAGEMENT

TECOM PROVIDE SIMULATION SUPPORT

TECOM PROVIDE AUDIO/VIDEO/VISUAL

A MAPPING OF PROCESS TO MCPC'S WILL BE PROVIDED VIA SEPCOR.

E. OPERATING BUDGET HOLDERS.

(1) ENSURE THAT PERFORMANCE MEASURES ARE ADDRESSED DURING CORE BRIEFS.

(2) ENSURE THAT PERFORMANCE MEASURES ARE INCLUDED IN ALL INITIATIVES.

(3) PARTICIPATE IN APPROPRIATE WG'S. COORDINATE AND SUPPORT LIAISON BETWEEN HQMC PROGRAM SPONSORS AND SUBORDINATE COMMANDS.

(4) ASSIST IN THE PROPAGATION AND IMPLEMENTATION OF ABC MODEL STANDARDS AND FISCAL CODES.

(5) ESTABLISH A PROCESS AND MEANS TO COORDINATE THE REVIEW AND VALIDATION OF THE ABC MODELS BY THE FUNCTIONAL MANAGERS, COMPTROLLERS, AND BUSINESS MANAGERS TO ENSURE THE MODEL ACCURATELY REFLECTS THE COSTS OF PERFORMING FUNCTIONS WITHIN THE INSTALLATION PROCESS MODEL.

7. THE ABRM WG CO-CHAIRS (POC'S LISTED ABOVE) WILL PROVIDE NOTIFICATION OF UPCOMING MEETINGS AND IPT'S REQUIRED TO IMPLEMENT ABRM FOR POM 06 AND BEYOND.

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**TAB F**

**NAVY**

*Navy*  
*date 7*  
4000  
Ser N460/

From: Director, Ashore Readiness Division  
To: Shore Installation Programming Board Members  
Subj: SHORE INSTALLATION MANAGEMENT (SIM) ACTIVITY BASED COST  
MANAGEMENT (ABCM) STRATEGY

Encl: (1) Shore Installation Management ABCM Strategy

1. The strategy document enclosed provides the framework for implementing ABCM within the SIM arena of the Navy. The strategy defines the process that will be used to collect and model Shore Installation Management (SIM) cost data, and identifies the assistance provided by OPNAV N46 along with implementation timelines. It also contains key background information and guidelines that will enable us to move forward in providing consistent, effective and efficient SIM services and support to sustain and improve Fleet Readiness.

2. I believe the systematic and disciplined approach to ABCM in enclosure (1) will enable us to maximize ABCM success within the shore establishment. The strategy is completely new and should be reviewed in its entirety. Installation Management Claimants (IMCs) and their ABCM staff will utilize this strategy to guide their efforts in developing and implementing ABCM across the SIM community.

C. W. COLE  
Rear Admiral, U.S. Navy

Copy to:  
CINCPACFLT N46  
CINCLANTFLT N46  
CINCUSNAVEUR N46  
COMNAVRESFOR N46  
CNET N46  
NAVSEA N46  
NAVAIR N46

# Shore Installation Management ABCM Strategy

## 1.0 Purpose

This strategy provides a framework for implementing Activity Based Cost Management (ABCM) within the Shore Installation Management (SIM) arena of the Department of Navy (DoN). ABCM is a cost management 'tool' or technique that will fundamentally enable SIM to better understand and manage its true costs.

## 2.0 Introduction

### 2.1 What Is ABCM?

Activity Based Cost Management (ABCM) is a logical, cause & effect method of assigning the cost of activities to the organization's products, services, and customers. Traditional cost systems unilaterally spread costs based on direct labor, material cost, budget or other simplistic methods. As a result, traditional costing systems tend to estimate the cost of products, services and customers. This leads to the "over-costing" of high volume products, services and customers and "under-costing" low volume products, services and customers.

The activity-based view of costs displays information relative to specific activities being performed and the resources consumed by those activities. Activity costs can then be associated with products or services to obtain a more realistic and complete cost of producing the product or providing the service. This is called *Activity Based Costing (ABC)*.

When ABC information is routinely used to make management decisions, an organization is said to be practicing *Activity Based Management (ABM)*. Because ABM is a logical extension of ABC, and for simplicity, this document refers to these collectively as *Activity Based Cost Management (ABCM)*. Figure 1 shows a more traditional appropriation view of cost information as compared to an activity view of cost information provided by ABC.

| Traditional vs. Activity View of Cost |            |                        |              |
|---------------------------------------|------------|------------------------|--------------|
| <u>Appropriation View</u>             |            | <u>Activity View</u>   |              |
| Civilian Personnel                    | \$50,000   | Maintain Facility      | \$18,500     |
| POL                                   | 8,000      | Acquire Supplies       | 8,350        |
| TDY                                   | 450        | Purchase Spares        | 27,500       |
| Transportation                        | 125        | Provide Billets        | 1,675        |
| Rent/Leases                           | 250        | Develop Budget         | 450          |
| Utilities                             | 820        | Train Personnel        | 275          |
| Communications                        | 175        | Maintain Records       | 70           |
| Facility Maint.                       | 1,250      | Operate Comm Ctr.      | 150          |
| Services                              | 225        | Instll/Main. Computers | 275          |
| Supplies                              | 150        | Operate Rec. Facility  | 550          |
| Equipment                             | <u>350</u> | Provide Medical Care   | <u>3,750</u> |
|                                       | \$61,545   |                        | \$61,545     |

*Figure 1 Comparison of Accounting Methods*

ABCM is a technique or 'tool' designed specifically to support effective management decision-making. An ABCM view of costs:

- Provides visibility of costs and causes of costs.
- Enables understanding of process and product quality as a function of cost.
- Provides robust capability to relate cost to performance [output]
- Improves ability to manage cost and performance over time, strategically and locally.
- Enables organizations to compare processes and activities and utilize best practice techniques

### 2.2 Why Use ABCM?

There are many ways to view costs in the DoN. Figure 2 depicts some of the most common views. Traditionally, costs have been viewed by appropriation, by organization, by installation, etc. An activity-based view augments, rather than replaces, these other views of cost. Managers need to be able to examine cost information using the view or views that best suits their perspective within the organization. Managers will also need different views of costs depending on the management decision at hand. A manager at any given time may look at costs from one or multiple perspectives.

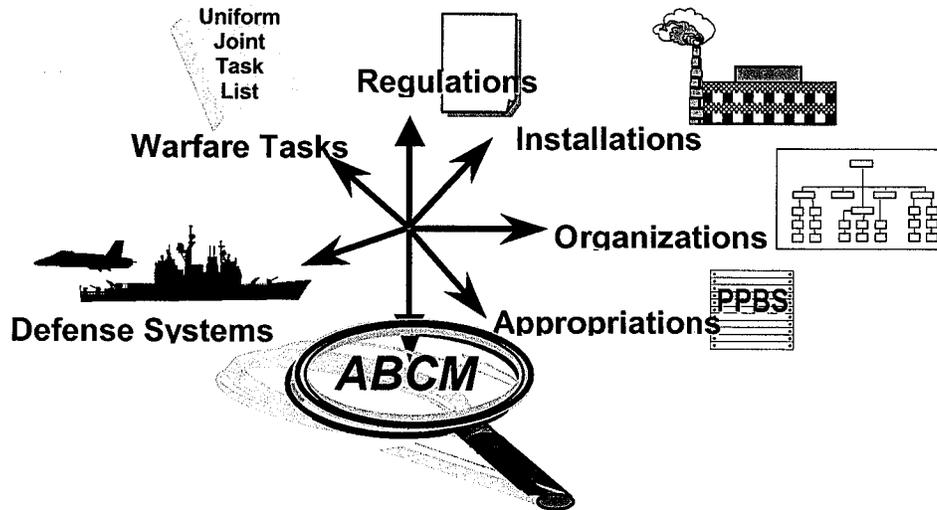


Figure 2 Useful Views Of Cost

Managers of a naval base, for example, may need additional information to be able to simultaneously manage the costs associated with performing the mission(s) of that base as well as manage the costs associated with specific products and services provided by the base (an activity view). An activity-based view of cost adds a perspective not provided by other views of cost widely available in SIM today. Furthermore, its focus on *causes* of cost improves the realism and clarity of costs rolled up or broken down in other views of cost.

### 2.3 Why A Common Approach?

In October 1996, the Defense Science Board (DSB) released a study titled *"Achieving an Innovative Support Structure for 21<sup>st</sup> Century Military Superiority."* This report cited the need to substantially reduce operation and support costs. Activity Based Cost Management was cited as the method for improving the visibility of cost information for management purposes. This study was released on the heels of numerous other reports and studies also calling for a substantial reduction in the department's operations and support costs. The National Performance Review (NPR) 2000 reiterated the need for improved cost management information within SIM. The NPR Goal #10 called for routine visibility into costs " ... through (the use of) Activity Based Costing and Management."

Nonetheless, without a SIM-wide strategy and some corporate level planning and coordination, implementation progress will be haphazard and of limited use. Without some commonality of terms and definitions, that define similar processes and activities, it would be impossible for managers to benchmark their costs with the costs of similar functions in government and industry. Furthermore, the sharing of common terms and definitions for common processes and activities would save local managers expensive development and consulting costs and time.

A planned, coordinated corporate-level approach also provides managers with access to lessons learned and knowledge from similar implementations. Tools and training can be

developed and contracted for centrally to keep implementation costs low and success rates high. Various tools that assist managers in planning an implementation or managing progress can be provided rather than being constantly reinvented each time ABCM is to be implemented. As links to various other SIM-wide databases are built, they can be shared with others, thus minimizing unique software development and maintenance costs.

### **3.0 Elements Of The SIM Strategy**

This strategy is specifically designed to consistently implement ABCM across the SIM organization while preserving autonomy at the local management level. The strategy will minimize implementation costs to the department and the implementing activity as well as keep success rates high. It draws from an extensive ABCM knowledge base of case studies, best practice studies, and lessons learned in both industry and government.

#### **3.1 Policy**

The Policy Statement is a primary element of the ABCM strategy. The Policy Statement's purpose is to focus on the elements contained within this strategy and to be specifically designed to enhance successful implementation. SIM Policy Statement is:

***To provide relevant information to SIM managers in a common format that promotes understanding of the costs of their processes and alternatives and assists them in continuously improving their programs. Furthermore, ABCM will become the preferred method of advanced cost management.***

OPNAV N46 will support this policy by:

- Providing implementation guidance
- Promoting leadership commitment
- Identifying incentives
- Providing funding for training
- Establishing funding for implementation

#### **3.2 Common Framework**

To maximize the chances for both acceptance and success of ABCM, SIM has developed this common framework. This common framework establishes the terms and definitions for common functions, processes, and activities of SIM organizations.

The common framework is based on these three key principles:

- Develop a common level of activities performed at all installations.
- Allow for installations to establish unique sub-activities.
- Require that all unique activities "roll-up" to the common level of activities.

*A common level of activities* is needed to provide structured up-line management reporting and a mechanism for installations to link their cost models. There are many reasons for having common terms for common activities.



practitioners repeatedly point the need for all activities to be common at the highest level. Therefore, if an installation chooses to define unique activities they must roll-up to a common function in the Installation Core Business Model. For example

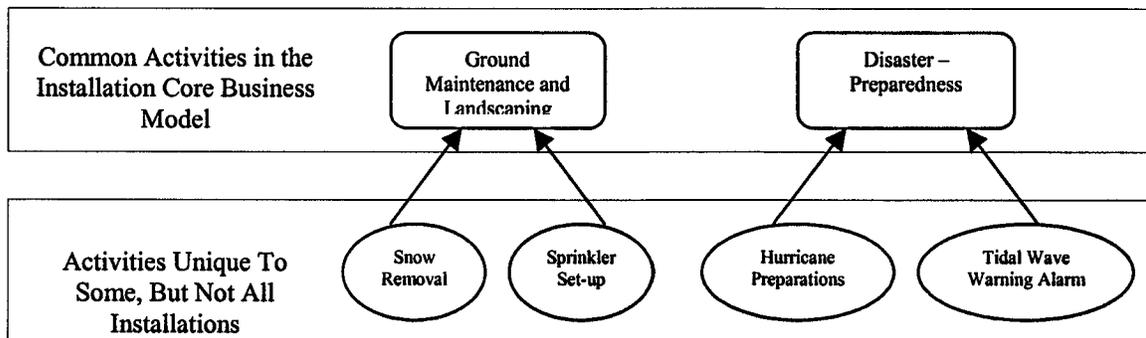


Figure 4 Roll-Up to Common Functions

An additional aspect of this common framework is to make available “best of breed” models, identifying those existing successful ABCM models, which can be offered to other installations as a starting point for their implementation of ABCM. The purpose of this is to take a proactive approach toward limiting the proliferation of a variety of ABCM models, while providing local managers the necessary flexibility to build models that address their specific needs. To employ this concept, a benchmark ABCM model will be selected based upon predefined criteria and be posted to the Navy’s “Share ABCM” website.

### 3.3 Tools and Assistance

SIM will support the implementation of ABCM across all regions. This strategy provides for three kinds of assistance. All three will be provided with a mix of internal and external resources.

1. Preparation Training and Assistance- Those responsible for undertaking an implementation can receive strategic training and assistance. This will help in preparing the installation for an ABCM initiative. This assistance would focus on:
  - Establishing management support
    - Obtaining management support is critical for the success of an ABCM initiative. This type of buy-in is usually established by exhibiting how management’s compelling business need of *providing relevant information to SIM managers in a format that promotes understanding of the costs of their processes and alternatives and assists them in continuously improving the efficiency and results of their programs...* can be achieved through the use of ABCM.
    - OPNAV N46 will also provide quarterly status briefs to the Shore Installation Programming Board (SIPB) and Region Commanders. The purpose of these briefs would be to obtain buy-in and report the status of SIM ABCM implementations.

- Assessing the organization's readiness for ABCM
  - The ABCM Design Framework (ADF) is a tool that can be used for this assessment. The ADF tool was created by the Consortium for Advanced Manufacturing, International (CAM-I), a thought leader in the area of ABCM. The ADF Tool provides empirical information about the need for an ABCM implementation within an organizational entity. Second, it provides an assessment of both the risk and the success factors involved in such an implementation. This assessment is indispensable in helping management mitigate risks and increase chances for success. As an example, determining and addressing organizational and cultural barriers to an ABCM implementation will positively affect the outcome.
- Providing support in mitigating areas of possible risk
  - One of the outputs of the ADF Tool is a list of Risk Mitigation Actions that the organization can employ to reduce the areas of risk specific to that organization. The organization can also use lessons learned from other ABCM implementations. The lessons can come from anywhere in the Navy, other government agencies, and from industry.
- Developing an Regional Strategic Plan
  - The culmination of the planning phase of any proposed ABCM implementation should result in a well-documented and comprehensive regional strategic plan. This strategic plan should capture and summarize the information derived from the organizational readiness assessment, the identification and analysis of implementation risks, potential risk mitigation actions and other pertinent organizational and situation issues. The regional strategic plan not only organizes and summarizes the knowledge gained in the planning phase. It also serves as the foundation for the actual ABCM implementation effort should the organization conclude that a successful and cost effective ABCM implementation would be of value to the organization or entity as a whole.

2. Implementation Training and Assistance- Those who implement ABCM will be offered funding for ABCM training. It would cover concepts and basics, applicable tools and how to use them, but also include industry and government benchmarks, as well as lessons learned from all types of ABCM implementations.

Funding for implementation assistance will also be available in the form of experts in ABCM and in financial accounting to serve on implementation teams, as well as information technology support for teams.

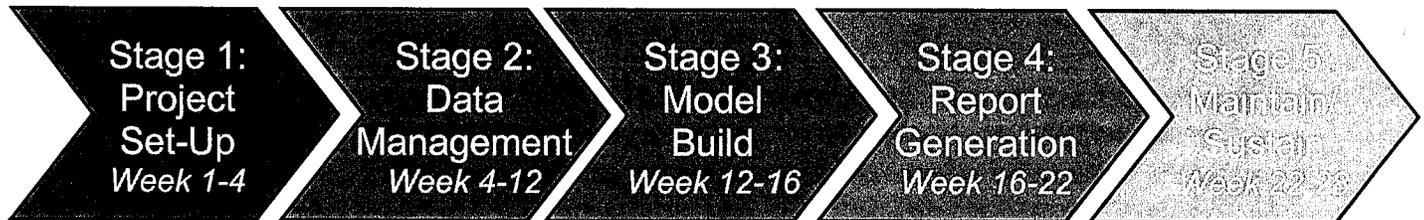
3. Communication Support- Communication among installations is a proven factor in increasing the chances of success. SIM has developed a "Share ABCM" website that will provide installations with the following:

- On-line access to ABCM policy, strategy, & an implementation guide

- Forums to exchange ideas and information
- Shared access to work files, etc.,
- Maintenance of “frequently asked questions (FAQs)”
- Pre-implementation survey to evaluate ABC/M readiness
- Announcements of training offerings
- Links to related industry/government websites

### 3.4 Timeline

SIM has developed the following Timeline to help organizations determine the actions that occur during each phase of an ABCM implementation. The periods of time are based upon an average size region with a 10 person implementation team. The length of each phase could take more or less time depending on the size of the region and the implementation team.



#### **Stage One – Project Set-Up**

- Formation of ABC team.
- Identify Regions needs and objectives.
- ABCM scope and boundary.
- Risk identification/management.
- Finalize project plan.
- Communications plan.
- Identify source systems.

#### **Stage Two – Data Management**

- ABCM methodology and architecture development.
- Activity dictionary customization through management facilitation.
- Develop source data specifications and collect data.
- Driver identification and collection.
- Develop data cleansing specifications.
- Develop model backbone.
- Identify sources of performance metrics and measures.

#### **Stage Three – Model Build**

- Survey organization.
- Initial source data collection complete.
- Cleanse Data.
- Propagate model with source data.
- Collect performance metrics and measures.

#### **Stage Four – Report Generation**

- Model build complete.
- Develop data cube for reporting.
- Validate results.
- Basic data analysis.

#### **Stage Five – Maintain and Sustain**

- Re-run model for ABC team training and familiarization.
- Develop transition plan.
- Develop model documentation.
- End user training.
- ABC team training in administering model, analysis of data and other ABCM functionality.

### **3.5 Approach**

There are varying degrees of detail, reporting requirements, and data collect that can go into the development of an ABCM model. SIM believes that each region should build a model that ultimately:

- Captures the cost of direct, support and overhead activities.
- Provides direct and fully absorbed costs of products, individual activities; across organization (e.g. contribution of other programs to each other) down to activity level and whole-of-organization view (Region, Command, Division, Branch etc...)
- Shows the flow of costs from the support areas of the organization (Business Office, Finance, HR etc) down to the final Region products and services.
- Can be used for 'What-if' analysis.

This type of detailed model is built by forming linkages via allocation paths between activities, and thereby forming a nodal network of activities covering the entire organization. Undertaking this level of detail during the initial implementation will be very difficult. Therefore, the model that is initially developed will have the capability to grow to meet the requirements above, however will only need to:

- Capture the cost of direct, support and overhead activities.
- Provide direct and fully absorbed costs of products, individual activities and the hierarchy of organizational units (e.g. Department, Division, Branch, Section) within a single Program.
- Give you the full cost of all the Region products and services, but only by Program or Command.
- Have no relationships or linkages formed between the different departments

### **4.0 Conclusion**

The purpose of this document is to provide support guidelines to SIM organizations that are chosen to pursue ABCM. OPNAV N46 believes this systematic and disciplined approach to ABCM planning is important and is considered mandatory to maximize the probability of ABCM implementation success. These guidelines are intended to provide a framework for organizations to use in implementing ABCM.

**TAB G**

**ARM 4**

Army



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY  
FINANCIAL MANAGEMENT AND COMPTROLLER



REPLY TO  
ATTENTION OF

WASHINGTON DC 20310-0109

25 FEB 2002

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Cost Management and Activity Based Costing

We recently received an update on the status of the implementation of Cost Management and Activity Based Costing (CM/ABC) throughout the Army's 11 Business Areas. We are pleased to report that activity has increased in the last few months, but progress still is slower than needed. We believe that it is essential for Business Area leaders and MACOM commanders to stress the importance of this initiative and to serve as champions for this effort.

Applying CM/ABC will enable the Army to attain its strategic goals and objectives. CM/ABC provides operational managers with a proven process for gaining efficiencies, improving performance and making informed resource decisions.

Moreover, we are committed to retaining at the local level any savings that result from the implementation of CM/ABC. CM/ABC is not a method for HQDA to harvest your hard-earned savings.

Your reports to us about the implementation of CM/ABC, including successes and challenges, are critical to our understanding the collective success of the program and to sharing results. Therefore, Business Area leaders will have a more prominent role in the Quarterly Reviews, starting with Base Operations and Civilian Human Resources, in the 1QFY02 Review in mid February. Additionally, we have asked CEAC to conduct MACOM and Installation visits for on-site reviews to see your progress first hand.

We must continue to ensure that our operational managers are managing costs actively to enhance performance through process improvement. This can only be accomplished through leadership commitment, involvement and support at all levels of command. We look forward to discussing your progress in future reviews.

*Sandra L. Pack*

Sandra L. Pack  
Assistant Secretary of the Army  
(Financial Management & Comptroller)

*John M. Keane*

John M. Keane  
General, United States Army  
Vice Chief of Staff

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DIRECTOR, TEST & EVALUATION MANAGEMENT AGENCY  
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COMMANDER

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SECRETARY OF THE ARMY  
WASHINGTON

01 NOV 2001

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Army Implementation of Cost Management/Activity Based Costing

On November 10, 1999, The Army initiated the management philosophy of continuous improvement through cost management, and directed the development of implementation plans as well as a three-year timeline for implementation within 11 business areas. Though many have pursued the implementation of Cost Management (CM) using Activity Based Costing (ABC), there remains much to complete.

I am firmly committed to continuing the aggressive pursuit of CM using ABC. Critical to the success of any organization is a thorough understanding of costs and the ability to impact those costs. The Army is no different. Our goal of improving business practices is necessary in order to control costs, enhance performance, and apply cost savings to meet our people, readiness, and transformation goals. A CM process using ABC helps commanders and managers answer the key questions, "what does our operation cost, what causes cost in our operation, and how can we better manage cost and improve productivity?"

It is paramount that those without approved Business Area Implementation plans complete them as soon as possible. Those organizations with approved plans should complete ABC model development and begin CM without delay.

Status of our implementation efforts will be monitored through Quarterly CM/ABC Reviews by the Vice Chief of Staff. Reporting requirements will be established and Business Area implementation schedules will be tracked. I am interested in seeing the results of your personal leadership and attention to this endeavor, and firmly believe we can achieve greater efficiencies and improved performance through effective cost management. I look forward to receiving updates on your CM/ABC program during my field visits.

A handwritten signature in cursive script, reading "Thomas E. White", is positioned above the printed name.

Thomas E. White

**SUBJECT: Army Implementation of Cost Management/Activity Based Costing (CM/ABC)**

**DISTRIBUTION:**

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Assistant Secretary (Manpower and Reserve Affairs)  
Director of Information Systems for C4  
Director, Test & Evaluation Management Agency  
Deputy Chief of Staff for Logistics  
Deputy Chief of Staff for Operations and Plans  
Assistant Chief of Staff for Installation Management

**MACOMS:**

**Commander,**

US Army Europe & 7<sup>th</sup> Army  
Eighth US Army  
US Army South Command  
US Army Forces Command  
US Army Materiel Command  
US Army Training & Doctrine Command  
US Army Corps of Engineers  
US Army Pacific Command  
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US Army Space and Missile Defense Command  
US Army Test & Evaluation Command



SECRETARY OF THE ARMY  
WASHINGTON

10 November 1999

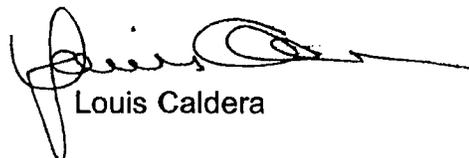
MEMORANDUM FOR PRINCIPAL OFFICIALS OF HEADQUARTERS,  
DEPARTMENT OF THE ARMY  
MACOM COMMANDERS

SUBJECT: Strategic Plan for Implementing Cost Management/Activity Based Costing (ABC)

In response to the USD(A&T) Memorandum on Defense-Wide Implementation of Activity Based Costing/Management (ABC/M) dated July 9, 1999, the Army has developed the enclosed Strategic Implementation Plan. We fully endorse Cost Management, using ABC where appropriate, as a process of continuous improvement. The Army will pursue ABC as a tool for the local manager to better understand operational cost and performance. We have an aggressive goal to complete implementation in 11 major business areas that support mission readiness within three years.

To meet this challenging timeline, we will provide ABC software and sustainment, establish a Cost Management/ABC course to rapidly train each business area, conduct prototypes in business areas as needed, and provide Cost Management/ABC training material. Each business area will prepare and submit detailed implementation plans through the Army Managerial Costing Steering Committee. The Army Cost and Economic Analysis Center will provide detailed instructions to each functional proponent in preparation for the upcoming steering committee meeting in December 1999, with information briefings available upon request.

Cost Management is not a one-time event; it is a long-term, continuous process solution to control cost and improve operations. This is an important culture changing event within the Army and must have leadership commitment from each business area. We expect the fullest participation throughout the Army and will monitor progress through the Quarterly Army Performance Review.

  
Louis Caldera

Enclosure

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# Business Areas

ABC is implemented in each of the Army's 11 business areas.

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REPLY TO  
ATTENTION OF

DEPARTMENT OF THE ARMY  
INSTALLATION MANAGEMENT AGENCY  
2511 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22202-3926



S: 30 May 03

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APR 07 2003

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Installation Management Agency (IMA) Productivity Management  
Implementation Plan

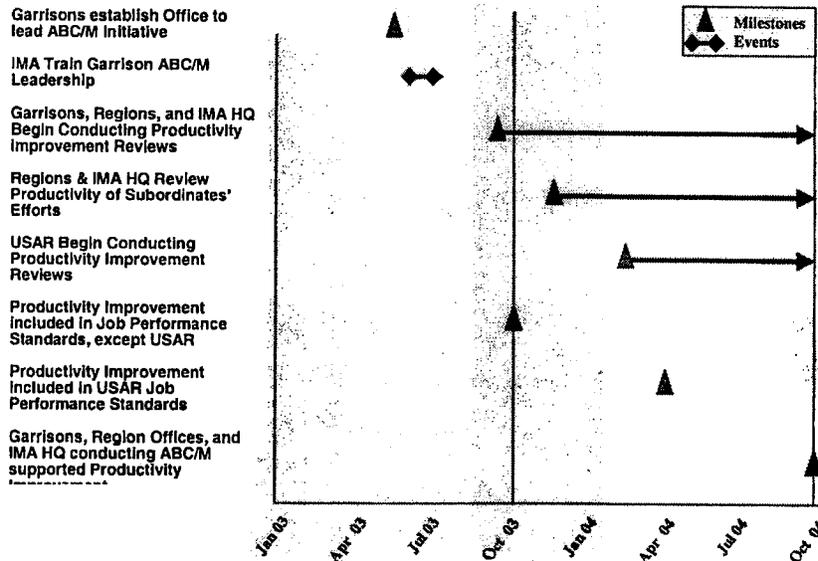
1. The 7 April 2003 *Installation Management Agency Productivity Management Implementation Plan: Implementing Activity Based Costing and Management (ABC/M) Across the IMA* is approved for execution. The Installation Management Agency (IMA) developed this plan in response to direction from the Assistant Chief of Staff for Installation Management (ACSIM) and the guidance in the ACSIM Base Support Cost Management/ABC/M Implementation Plan of 12 May 2000. IMA fully endorses cost management, using ABC/M, as a process for continuous productivity improvement. Productivity management encompasses both performance management and cost in a resource constrained environment. IMA will pursue ABC/M to assist garrison commanders to better understand performance and cost management in the base support business area.
2. This IMA plan establishes a very aggressive goal of implementing productivity improvement reviews utilizing ABC/M by the end of fiscal year 2004. To meet this challenging timeline, IMA will provide or coordinate appropriate training and provision of ABC software to garrisons and region offices. Garrisons that are conducting ABC/M-based productivity improvement reviews should continue with these efforts. Nothing in this plan will derail ABC/M efforts that are underway today.
3. Prior to IMA activation, many garrisons received initial ABC/M implementation guidance from their MACOMs; they should continue these programs. Where possible, we will build on existing programs in implementing productivity management. Implementation of productivity management is an IMA team effort in which IMA HQ and region staffs will actively participate. We will enable our garrisons to transform installation management from a budget-centric culture to a productivity management culture pursuing continuous productivity improvement.
4. The timeline to achieve our goal of conducting ABC/M supported productivity improvement reviews by September 2003 is shown in the following figure.

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SUBJECT: Installation Management Activity Productivity Management



## IMA IMPLEMENTATION OF ACTIVITY BASED COSTING AND MANAGEMENT

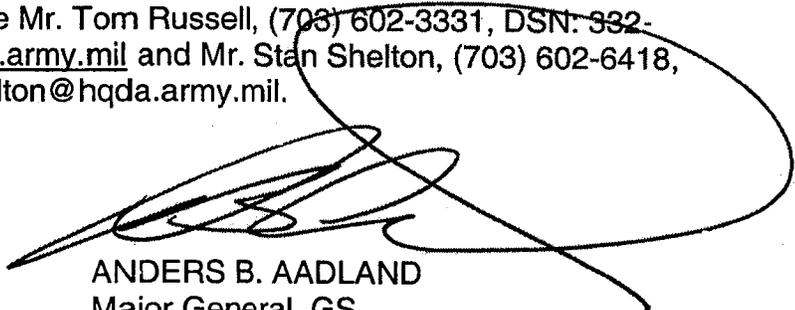


5. The key steps in achieving our goal are:
  - a. Each IMA garrison commander will establish a Garrison Plans and Programs Office to serve as the ABC/M focal point, by 30 May 2003.
  - b. Regions will host, and IMA Headquarters will conduct a series of regional productivity management workshops for garrison commanders and the head of their Plans and Programs Office no later than 30 June 2003.
  - c. By the end of fiscal year 2003, each garrison commander will begin conducting productivity evaluations to examine cost and performance with the garrison's directors.
  - d. By December 2003, region directors will begin holding quarterly reviews that, at an appropriate level of detail, examine the results of the garrisons' productivity evaluations.
  - e. Army Reserve Regional Garrisons will be conducting productivity evaluations by 30 March 2004.
  - f. By the start of fiscal year 2004, productivity improvement will be included in job performance standards for all commanders, directors, managers and supervisors.
  - g. Productivity improvement will be included in job performance standards for the Army Reserve Regional Garrisons and the IMA-ARD by 30 April 2004.

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SUBJECT: Installation Management Activity Productivity Management

6. The Productivity Management Implementation Plan may be found via the IMA Internet Portal website at: [https://secureweb.hqda.pentagon.mil/ima\\_intranet/Plans%20Directorate/Installation%20Quality%20Management/IMA ABC Plan 7Apr.doc](https://secureweb.hqda.pentagon.mil/ima_intranet/Plans%20Directorate/Installation%20Quality%20Management/IMA_ABC_Plan_7Apr.doc).
7. As part of IMA's continued commitment to this endeavor our performance management experts from Grant Thornton will provide onsite support to all region directors in the areas of productivity management, ABC/M and balanced scorecard. Initially, each region office will receive support from one full-time expert. Based on the workload and future requirements, we will evaluate the need for additional resources. Please contact Uday Desai at phone number 703-602-1821 or email [Uday.Desai@hqda.army.mil](mailto:Uday.Desai@hqda.army.mil) if you have any questions.
8. Productivity management using ABC/M, with a strong emphasis on management, will prove invaluable to garrison commanders in improving the efficiency and productivity of their installations. At all levels, IMA must move out aggressively on this campaign; make sure your approach is proactive.
9. Points of contact for this action are Mr. Tom Russell, (703) 602-3331, DSN: 332-3331, e-mail: [Thomas.Russell@hqda.army.mil](mailto:Thomas.Russell@hqda.army.mil) and Mr. Stan Shelton, (703) 602-6418, DSN: 332-6418, e-mail: [Stanley.Shelton@hqda.army.mil](mailto:Stanley.Shelton@hqda.army.mil).



ANDERS B. AADLAND  
Major General, GS  
Director, Installation Management Agency

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PICATINNY ARSENAL, NJ 07806-5000

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UNIT 1, FORT LEAVENWORTH, KS 66027-1417

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DEPUTY ASSISTANT SECRETARY OF THE ARMY FOR COST AND ECONOMIC  
ANALYSIS (DASA-CE)

ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT (ACSIM),  
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**TAB H**

**AIR FORCE**

# Headquarters U.S. Air Force

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## Activity-Based Costing/Management



Rachel Weber,  
SAF/FMCEE

**U.S. AIR FORCE**

*Financing the Fight*

*Presented  
15 Sep 04  
AF Economic  
Analysis Conf.*



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## ABC/M

- What is ABC/M?
- Why use it?
- History and Current Status of Implementation Efforts
- Lessons Learned
- Future

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## What is ABC/M?

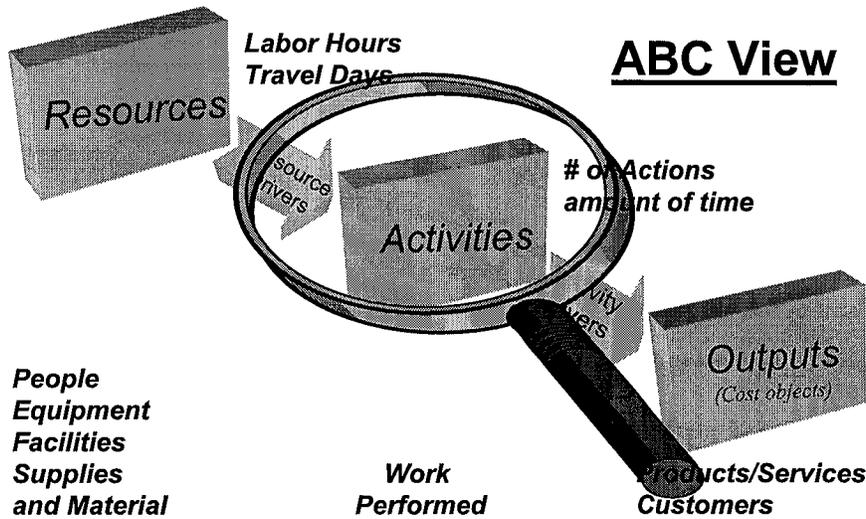
- “Activity-Based Costing is the measurement of activities in terms of costs.”
- “Activity-Based Management is the the pro-active decision making process, whose intention is to improve the cost of those activities. Or put another way, ABM is simply the management of the activities and therefore corresponding costs, within the production process.”

Timothy White. *The 60 Minute ABC Book*. (Bedford, TX: CAM-I, 1997), 49.

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## What is ABC/M?



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## What is ABC/M?

### Process View

Why? What causes costs to occur or change?

What is done?

How well is it done?

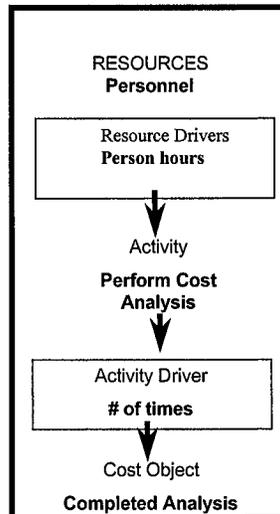


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## Cost Assignment View: An Example

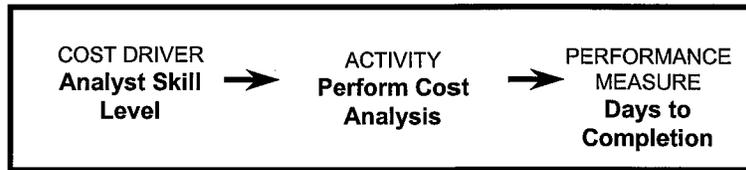


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## Process View: An Example



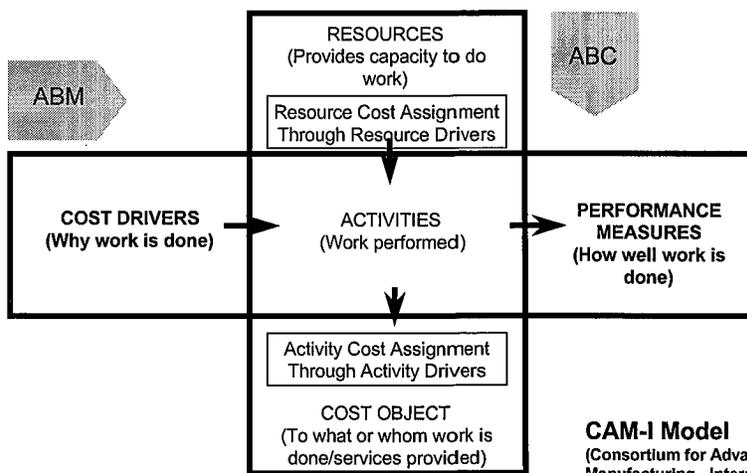
- An example of a Cost Driver is Analyst Skill Level.
- The greater the skill level of the analyst completing the analysis, the fewer days will be needed to complete it.

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## The CAM-I Cross



The CAM-I Glossary of Activity-Based Management, Edited by Norm Raffish and Peter B.B. Turney, (Arlington: CAM-I, 1991).

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## ***What is ABC/M?***

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- **ABC:**
- **What are my outputs and how much do my outputs cost?**
- **What activities do I need to perform to produce those outputs?**
- **What resources do I need to perform those activities?**

**Result is a snapshot in time of my costs.**



## ***What is ABC/M?***

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**“ABC models themselves do not achieve or identify improvements.”**

**“The models promote cost awareness and identify areas for further management attention.”**



## What is ABC/M?

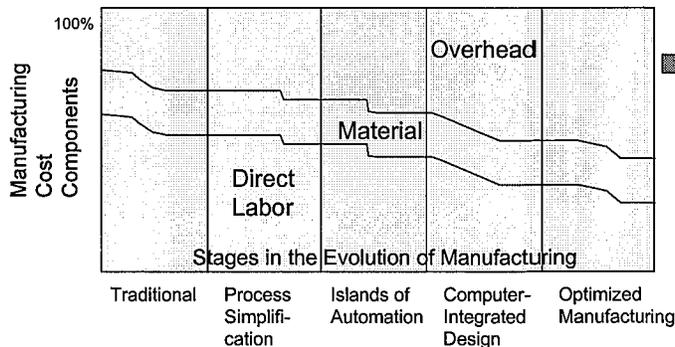
- **ABM takes it to the next level:**
- **Analyze the cost data and use the data to make decisions.**
  
- **Specific decisions ABC can help with:**
  - **Customer value analysis**
    - Question the utility and applicability of your cost objects
  - **Question the role of AFSC/Grade accomplishing tasks**
  - **Question the supplies and equipment used**
  - **Use the data for resource allocation decisions**
    - Justify finplans and requests for more people/money

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## Why ABC/M?

Old Cost Accounting Systems were developed to address direct labor and direct material costs.



- Are these costs really fixed?
- How do we control these costs?

Gary Cokins, Alan Stratton, and Jack Heibling *An ABC Manager's Primer* (Montvale: Institute of Management Accountants, 1993), 3.

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## **Why ABC/M?**

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- **Several views**
  - **Taxpayer**
  - **Decision Makers**
    - **Need cost information to make resource allocation decisions**
  - **Laws**
    - **Chief Financial Officer's Act of 1990**
      - Complete, Reliable, Timely and Accurate Information
    - **Government Performance and Results Act of 1993**
      - Develop performance plan.
      - Measure and report on program goals.
      - Focus on results, service, quality and customer satisfaction.

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## **Why ABC/M?**

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- **Laws (cont.)**
- **Statement of Federal Financial Accounting Standards (SFFAS) #4**
  - **Provide program managers' with reliable information relating costs to outputs and activities.**
  - **Provide relevant cost information to assist Congress in making decisions about funding allocations.**
  - **Specifically mentions ABC as an appropriate costing methodology**

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## **History**

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- **CORONA TOP 1999**
  - Task each MAJCOM to pick a base for Business Process Improvement/Business Process Reengineering (BPI/BPR)
- **Gansler Memo -USD (AT&L) July 1999**
  - Apply ABC/ABM at depots and everywhere else it can be expected to improve cost management
  - Requires agencies submit quarterly progress reports
- **SAF/FMC Proposal to AFCV Aug 1999**
  - Established Organizational Framework
    - Steering Group - BOD Led by AFCV
    - Working Group - Chaired by SAF/FMC, members include MAJCOM POCs & HQAF Support Staff

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## **History**

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- **AF Cost Reduction Memo-Sep 1999**
  - Signed jointly by Secretary of the Air Force and AF Chief of Staff
  - Encourage use of BPI/BPR & ABC/ABM - allow MAJCOMs to retain identified savings in the budget and execution years
- **ABC Off-Site Conference- Oct 1999**
  - Sponsored by AFCV with over 100 attendees from all MAJCOMs
  - MAJCOMs outline their pilot plans

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## **History**

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- **January 00 Update to Dr. Gansler**
  - Sought approval of AF implementation plan
  - Discussed need for OSD to develop software to link existing financial systems to cost management systems used by OSD
- **June 00 ABC Conference at Andrews AFB**
  - Commands update AF/CV & SAF/FM on their pilot projects and future plans
  - Discussed software and incentive package
  - Discussed optimization of AF's CAM-I membership

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## **Status Today**

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- **Status in FY04**
  - Commands continue to pursue ABC/M
    - AFMC at Hill AFB - the Delta system to collect T&A data
    - AETC developing RTOC toolkit - used on shop floor to map industrial processes and analyze costs
    - AFMC at AAC on Eglin AFB – myriad of uses - using it to achieve cycle time reductions in some divisions and to justify budgets
    - Seymour Johnson – Vehicle Maintenance – justify vehicle in commission rate
  - SAF/FM and SECAF committed to promoting use of ABC/M
    - FM Transformation Initiative - Expand ABC in the AF

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## ***Lessons Learned***

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- **DEFINING THE PURPOSE IS CRUCIAL**
  - **Examples of purposes that didn't succeed**
    - Let's do ABC to see if it will work
    - Let's do ABC to get a handle on our costs
  - **What makes a good purpose?**
    - Very specific
  - **Advice from an ABC guru to SAF/FM**
    - Before you begin your implementation you must answer this:  
What is the first question that I will use this ABC data to answer?

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## ***Lessons Learned***

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- **Examples of good purposes**
  - Implement ABC with the expectation that the data from the model will help us reduce cycle times by 50%
  - Implement ABC to determine what to charge for reimbursables
- **Purpose must then be cascaded to all levels of the organization so that everyone understands the need for ABC/M**

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## **Lessons Learned**

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- **Senior Leadership Buy-In**
  
- **Automation to collect data – especially T&A Data**
  - **DELTA**
  - **eMTS**
  - **ABC-In**
  
- **Managers must use the data for decision-making**
  - **There must be a burning platform to force this culture change**

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## **Future**

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- **FMT ABC effort**
  - **Goal of senior leaders**
  - **The team's answer**

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## ***In Conclusion:***

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- **Forces people to be aware of their costs:**
  - What does it cost to produce this report?
  - Why do I have to perform these activities?
  - What resources do I need to perform those activities?
  - How can I manage the activities more efficiently?
- **Requires strong commitment from senior leaders**
  - Time, Money, People
  - Culture Change
- **Requires automated data collection from finance systems**

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## Air Force ABC/ABM Implementation

**Jul 99 Memo from Under Secretary of Defense  
(Acquisition and Technology)**

*Gender Memo*

**Oct 99 AF Memo for Under Secretary of Defense  
(Acquisition and Technology)**

*Gender Memo  
(See Com)*

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ABC

## ACTIVITY – BASED COSTING

OPR : **SAF/FMCE**

Phone:

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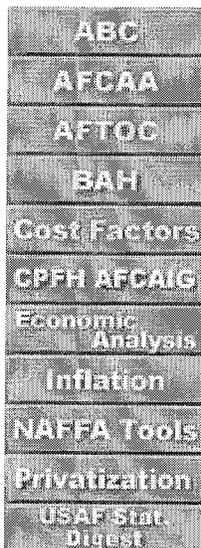
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- ▶ SAF/FM's Role in Outsourcing & Privatization
- ▶ ABC/ABM Training
- ▶ ABC/ABM Studies (.mil only)
- ▶ Survey of Who's Involved in ABC/ABM
- ▶ Resources and Related WEB Sites
- ▶ Air Force ABC/ABM Sep 99 Conference, Randolph AFB (af.mil only)
- ▶ Air Force ABC/ABM Implementation (.mil only)
- ▶ Statement of Federal Financial Accounting Standards #4 - Managerial Cost Accounting Concepts and Standards for the Federal Government
- ▶ The Air Force 2nd ABC/ABM Conference June 2000 Andrews AFB (af.mil only)

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ABC

## ABC Studies (\*.mil only)

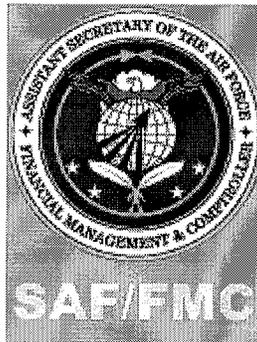
### EA Distance Learning News!!



- The Air Force Business Solutions Exchange
- HQ AETC/LG-EM: Achieving RTOC - AETC's Approach Toward Industrial Process Operations
- Applying ABC to Air Force Weapon System Test & Evaluation
- Institute for Environment, Safety and Occupational Health Risk Analysis: Reducing Costs in Air and Space Power

Share your ABC/M Lessons Learned with other AF personnel. Submit ABC/M implementation articles to SAF/FMCE for posting to this page.

Are you just beginning an ABC/M study? SAF/FMCE has a limited number of ABC/M Study Starter Kits available to help you get underway. Limit one per organization. Submit requests via email to SAF/FMCE complete with a description of the study including the purpose,



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