The Army Materiel

Command's

Cost Management Plan

for

Supply Management Army

January 2001

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Supply Management Army Cost Management Plan

Section I: Define the Business Area:

1.01 Description: The Supply Management, Army (SMA) activity group, financed through the Army Working Capital Fund (AWCF), operates on a buyer-seller relationship, buying and maintaining assigned stocks for sale to its customers, primarily Army operating units. The activity consists today of a wholesale division and separate retail divisions for Army major commands, plus a retail division to support military requirements in the National Capital Region. The wholesale division is subdivided by commodity. Beginning in FY01, the retail divisions are being eliminated as we convert to a Single Stock Fund (SSF). Major Subordinate Commands (MSCs), under the U.S. Army Materiel Command (AMC), manage assigned Army items. The AMC also manages the Army's prepositioned war reserves. The primary function of SMA is to manage materiel to ensure Army readiness. To that end, the materiel managers determine the inventory requirements for approximately 125,000 national stock numbered items, and determine whether to repair existing items or acquire new items as a means of replenishing the inventory.

Future Vision:

The AWCF-SMA account will eventually combine with the Global Combat Support System-Army (GCSS), a logistics automated information system and business automation enabler for the combat service support for the Total Army. The GCSS includes the Wholesale Logistics Modernization Program(WLMP) as its Tier II automation platform system to support its system architecture. The GCSS is being developed for the total Army Combat Service Support mission for manning, arming, fixing, fueling, moving and sustaining soldiers and their weapon systems. The WLMP is Block I of Tier II. The WLMP is a business process reengineering initiative, which includes the modernization of AMC's two primary logistics systems, the Commodity Command Standard System (CCSS) and the Standard Depot System (SDS).

The WLMP is an effort to reengineer and integrate current business processes at the wholesale and retail levels. Business processes will be reengineered to conform to best business practices and to leverage existing technology. As the SSF and National Maintenance Program(NMP) initiatives become fully implemented and best business practices are adopted and integrated with the most current technology, AMC and the Army will transition to a single, integrated national logistics system.

The item managers at AMC's Integrated Materiel Management Centers(IMMCs) will have total asset visibility across the Army and the ability to ship assets as required to anywhere in the world. Having total asset visibility for the first time means that AMC will only buy or repair assets when there is a valid requirement for that asset.

Cost Management will be implemented during the first fielding of WLMP using SAP ABC-OROS, SEM-CPM (Performance Monitoring) and SEM-BPS (Planning and Simulation) modules.

1.011 Business Area name: Supply Management, Army

1.012 Locations of AMC's IMMCs:

U.S. Army Aviation and Missile Command (AMCOM)
Integrated Materiel Management Center, Huntsville, AL.

U.S. Army Communications-Electronics Command (CECOM)
Logistics Resource Center, Ft. Monmouth, NJ.

U.S. Army Soldier Biological and Chemical Command (SBCCOM)
Integrated Materiel Management Center, Natick, MA

U.S. Army Tank-automotive and Armaments Command (TACOM)
Deputy for Systems Acquisition and Life Cycle Management, Warren, MI

1.013 HQ AMC POCs:

AMCRM-E, telephone 703-617-8030 DSN 767-8030,

AMCRM-E, telephone 703-617-9086 DSN 767-9086,

1.02 Mission Statement: The SMA business area mission is to improve the delivery of support services to the

Department's operating forces while reducing the cost of operations.

1.03 Organizational Structure: The SMA is assigned to the command and control of the U.S. Army Materiel Command, which is responsible for managing its functional and financial performance. At the Department of the Army (DA), functional oversight of SMA resides with the Assistant Secretary of the Army for Financial Management and Comptroller(ASA(FM&C)).

1.031 Number of employees *(Total by End Strength Mil/Civ):* The authorized end strengths for the IMMC business area based on the FY00 PBG, 1 Oct 99, are:

AMCOM - 1053
CECOM - 901
SBCCOM - 75
TACOM - 975

1.032 Management Structure/Chain of Command: The AMC chain of command is as indicated in the organizational chart in paragraph 1.033. The AMC is responsible for the day-to-day management and operation of SMA activities. The Commanding General, AMC has designated the MSCs listed in paragraph 1.012 to be responsible for effective management of each type of commodity managed by AMC. Following is a table of the MSCs, their commands and commodities managed:

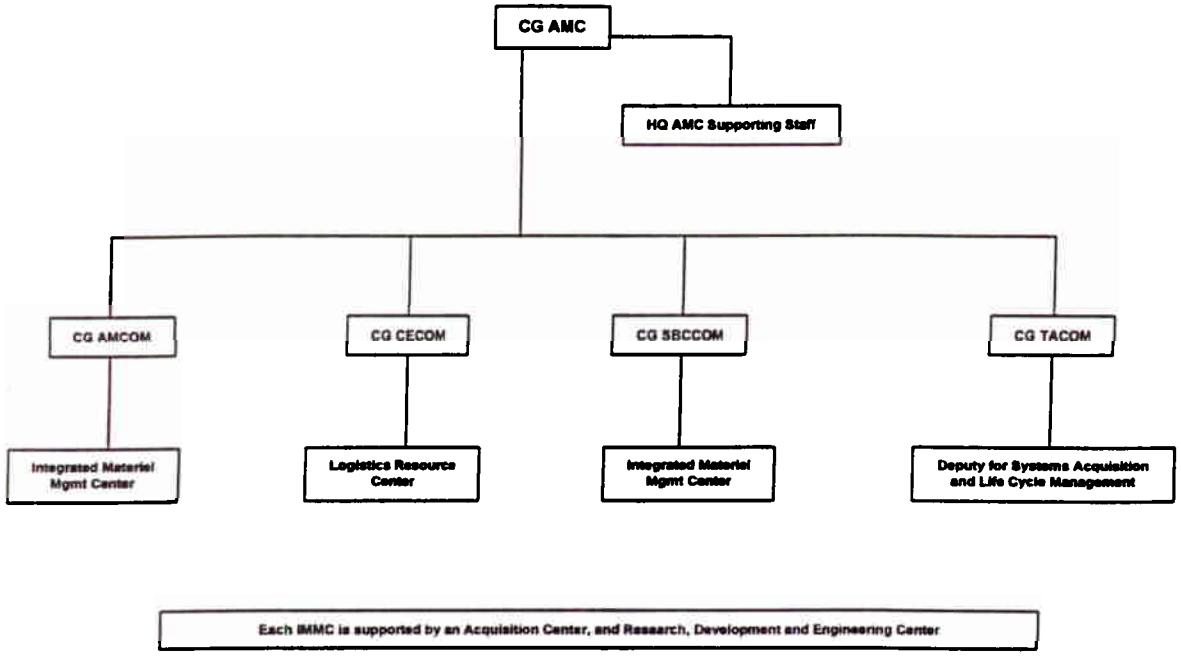
MSC	Commanders	Commodities Managed
AMCOM		Aircraft
CECOM		Electronics
SBCCOM		Chemical and soldier support
TACOM		Tactical vehicles

The AMC Deputy Chief of Staff for Logistics and Readiness(DSCLG) has oversight responsibility for the functional operations of the SMA activities. The AMC Deputy Chief of Staff for Resource Management (DCSRM) is responsible for the PPBES process, e.g., budget submissions and determining credit and surcharge rates. The DCSRM is also responsible for the Cost Management effort as required

by the Secretary of the Army's "Army Strategic Plan for Implementation of Cost Management/Activity Based Costing."

1.033 Organizational Chart:

U.S. Army Materiel Command
Supply Management, Army Organization



1.04 Business Area Funding: The SMA Activity group will undergo major changes in FY2001 as we implement our SSF initiative by integrating our wholesale and retail divisions making a more efficient structure. This initiative will provide total asset visibility of the Army's inventory.

	FY99	FY00	FY01
Net Sales $M	$6,467.9	$6,397.2	$4,705.8

1.05 Products and Services: The SMA ensures a constant, ready availability of spare parts: Class II, Class IX and Class IV.

1.06 Major Customers: Customers include internal Army and external non-Army customers. Internal Army customers are the Active Army, National Guard, Army Reserve and internal AMC AWCF sales within the SMA area. External customers include inter-service accounts and non-DoD sales such as foreign military sales.

Section II: Baseline your Cost Management/ABC efforts - (explain your existing Cost Management program, ABC/M or otherwise):

AMC currently has SMA financial systems but no cost management systems.

2.01 Overview of your current Business Area Cost Management/ABC initiatives if any:

2.011 Current ABC efforts. None.
2.012 Existing MIS used to manage costs. None.
2.013 Other Cost Measurement methodology (Job Order, Process, Target, etc.). None
2.014 Software used. None. (CCSS and SOMARDS are financial systems)

2.02 Assessment of Employee Cost Management skills:

2.021 Management Level Skills Trained to do ABC/M. Two.
2.0211 Number with ABC training *(Certification.)* One.
2.0212 Number with On-the-Job Training. None.

2.022 Staff level Cost Management Skills Trained to do other CM methodologies. None.
2.0221 Number with ABC training *(Certification)* None.
2.0222 Number with On-the-Job Training. None.

2.03 Existing Cost Accounting Systems:

2.031 Location. NA
2.032 Type System. CCSS and ATAAPS
2.033 Methodology. The CCSS enables the IMMC item managers to manage wholesale inventory, including making repair/buy decisions, inventory control, planning and budgeting. The CCSS is a "system of systems" and contains over five hundred subsystems. The ATAAPS is an automated system that records the time and attendance of employees. ATAAPS has the capability of reporting labor hours and identifying them to a specific work activity.

2.034 Does it feed a Cost Management or Decision Support? NA

2.04 Describe Current Performance Management System(s):

2.041 What performance metrics do you use? Stock availability, stock turn, unit cost, gross sales, revenue, cost, capital investment, and cash flow as measured by disbursements, collections, and net outlays. Stock availability (fill rate) measures the percentage of SMA requisitions satisfied upon initial processing by the wholesale supply system. The goal is 85 percent. This is a measure of the relationship between readiness and inventory investment. Stock turn is the ratio of annual sales to the average inventory value excluding non-demand-based inventory, such as insurance items, war reserves, and goods held for economic or contingency reasons. Stock turn measures inventory mass. Unit cost is cost-per-dollar of sales for customers.

2.042 How do you use your performance metrics to manage? AMC monitors their performance metrics monthly as its responsibility for the financial performance of the SMA group. The primary performance metrics are submitted in Exhibit 12 of the budget submit.

2.043 How and what performance measures support the GPRA? Unknown.

2.044 Are your performance measures aligned with your cost management systems? There is no cost management system.

Section III: Describe Full Implementation of Cost Management/ABC:

3.01 Describe your end-state vision for Cost Management/ABC:

The strategic perspective identifies the goal for cost management. The operational perspective presents a more detailed set of objectives and actions to be executed in support of the strategy.

STRATEGIC PERSPECTIVE

SMA's CM/ABC strategic goal is to continuously improve the efficiency and effectiveness of processes in the delivery of spares and repair parts.

OPERATIONAL PERSPECTIVE

The SMA area's CM/ABC operational objectives are to:

Enhance readiness and provide premier customer service. The Velocity Management initiative supports this objective by reducing order ship time and repair cycle time and reconfiguring stockage determination.

Modernize and reengineer logistics processes. This objective will be accomplished through the implementation of the SSF, GCSS-A, the WLMP and the NMP.

Minimize costs while meeting warfighter requirements.

Provide operating managers better information on costs attributed to their key item manager activities and products to better support pricing decisions and customer support.

Allocate the AWCF surcharge by major weapon system or item.

Refocus the budget-based management perspective to a CM/ABC-based management perspective and deploy ABC in all SMA areas with local managers actively using and updating ABC to evaluate and make resourcing and process improvement decisions.

Improvements are expected in AWCF surcharge rates based upon utilizing ABC/M methodology. Managers will be better able to allocate resources, quantify expected impacts of resource reductions or increases, and compare alternatives.

Section IV: Plan to Get from Baseline to Full Implementation:

Cost Management

Continuous cost and process improvements are achieved when managers can accomplish their missions with less. This means completing the mission under budget or not spending all the money. These savings are available to the local managers to fund local programs in the first year of the savings. This is the incentive (driving force) in Cost Management as outlined by the ASA(FM&C).

ABC/M training will be required to build on the existing skills and knowledge base. Training will be required to enable people

to apply activity management skills in their specific work situation.

Rapid CM/ABC prototypes will be used to prove the success of the program. There will be leadership recognition of the prototype success and the people who enabled it.

We will utilize CM/ABC to improve the efficiency and effectiveness of the services provided by the LRC/IMMC (item managers and their support staff) for each weapon system or commodity group. Reductions in the operating budget will be a measure of successful cost management.

Roles and Responsibilities:

IMMC/LRC Director

Resource and use ABC as a measurement tool for management to use in decision-making to establish, benchmark, and sustain continuous process improvement.

Use cost management and establish cost management goals.

Hold SMA activity managers accountable for progress in identifying and implementing process improvements that drive their activity towards assigned cost management objectives.

Ensure CM/ABC training is provided for SMA managers and staff.

SMA Managers

Create a work environment conducive to cost management and continuous process improvement.

Use available CM/ABC systems and information to benchmark, identify, and implement process improvements.

Ensure data and information provided to and used in CM/ABC systems are accurate.

Prototype

The first step to achieving our objective of acquiring accurate surcharge data is to change our focus from commodity surcharges to weapon system surcharges and allocate the costs by weapon system, based on total operating budget.

Phase I included an analysis of the feasibility/impact of changing our approach to surcharge development. Working from FY00 projections for 30 selected weapon systems, data was collected at the SMA object class level of detail. Enclosure 1 contains a list of the 30 selected weapon systems. Types of cost account data collected in Phase I are: Civilian Personnel Compensation and Benefits, Travel and Transportation of Personnel, and Materiel & Supplies (for internal operations). Headquarters and other supporting elements are currently allocated to overhead or other business area.

This approach differs from the current method of relating sales to cost by commodity in that it captures sales and costs of the unique items for 30 major weapon systems. The AMC intends to modify the initial approach to gain more visibility into those systems each IMMC manages over and above the 30 previously selected systems.

After analysis of the data by weapon system by looking at a ratio of total operating budget to number of people and sales it was readily discernable that the major weapon systems would have lower surcharges based upon sales while the smaller systems would have a significant increase. ABC will be used as the weapon system cost management tool to look into how to increase the efficiency and effectiveness of the SMA processes. (The weapon system is the cost object, the resources are the people and dollars, the activity driver is the requisition from the field and the activities are what the item managers and their indirect support teams do.)

Due to the heavy SMA workload and implementation of WLMP, the decision to implement weapon system surcharges is being postponed until the initial WLMP fielding is accomplished. The AMC will work with the WLMP to implement CM/ABC within AMC. The exact extent of the contractual responsibility of the WLMP contractor to implement ABC within AMC has not at the time of this rewriting been clearly defined. Once the WLMP requirements concerning CM/ABC are definitized a revised CM/ABC plan will be released.

Initial Training Program:

USACEAC will provide training to support implementation of CM/ABC in the SMA business area. USACEAC will sponsor the following:

Initial CM/ABC training tailored to the SMA business area to provide for conceptual understanding of CM/ABC, software capabilities, model development and utilization, and embedding the CM process in the BOS business area. This training will consist of two courses:

Enterprise Building for Leadership (3 days) designed for MACOM/MSC staff and stresses a whole enterprise approach. Focuses on performance measures/Balanced Scorecard and linking cost, performance, and strategy. The Director of the LRC or representative and key managers will attend.

Action Officer Training (5 days) to work with Oros ABC/Plus software. Focuses on CM/ABC, ABC model development and software, and prototyping.

SMA Plan Implementation Schedule:

Jan 01 Submit SMA Business Plan to DA DCSLOG.

The AMC intends for the SMA CM/ABC implementation to follow implementation of the WLMP at the commodity commands. WLMP implementation by major subordinate command is scheduled as follows: CECOM - Jan 02 to Jun 02; TACOM - Jun 02 to Sep 02; AMCOM - Sep 02 to Dec 02; SBCCOM- Dec 02 to Mar 03.

Criteria for Assessing ABC as a Cost Measurement Tool.

The exit criteria will include items such as:

A determination of surcharge by weapon system.
Ways the local manager has utilized cost management.
Expanded customer understanding of surcharge costs.
Improved pricing strategies.
Cost/savings ratio.

Performance Measures:

Our strategic goals and objectives will be linked to performance measures using the Balanced Scorecard. As the prototype is developed, the performance metrics will be included. SMA performance measures will be a part of the measures in the WLMP.

Program Sustainment and Improvement

The ABC models developed and built must be readily maintainable by staffs within current resources. If the level of detail is too great relative to the value of the information gained by local managers, the ABC models will not be properly maintained. Sustaining ABC data should become as routine and managerially important as preparing and submitting civilian timecards and evaluations. Managing costs to improve productivity is a basic responsibility for every SMA manager and must be performed on a continuing basis. Therefore, ABC models will require updating on at least a monthly basis to maintain information sufficiently current for decision-making.

The AMC will plan to have personnel attend courses on a "just-in-time" basis especially for action officer training. This training is most effective if students can begin working with their models using the Oros ABC/Plus software within two weeks of the completion of their training. Personnel responsible for building and maintaining the ABC models should attend action officer training. Directors and deputy directors of SMA activities about to implement ABC should attend the executive level course.

Relationship to and Support of Visibility and Management of Operations and Support Costs (VAMOSC):

In DoD's VAMOSC initiatives, the cost of SMA services is added to the AMDF as the surcharge cost in developing operations and support (O&S) costs for weapon systems. As the AMDF costs change, they will effect OSMIS.

Implementation Constraints:

The SMA business area is not mutually exclusive of the other CM/ABC business areas. SMA needs to understand the services and support provided by the Information Support, Civilian Human Resources, and the Contracting Process business areas cost management programs.

The AMC DCSRM will work CM/ABC actions with other business area managers.

Wholesale Logistics Modernization Program (WLMP) modules which interface to SMA Cost Management Plan:

This plan will utilize the following SAP Company modules to implement cost management:

Performance Measuring with SAP

This module includes the Balanced Scorecard which integrates financial and non-financial aspects of operations, such as costs, customers, internal process, learning and growth perspectives. The Balanced Scorecard concept divides the overall strategy into strategic themes, which consist of objectives. In addition, strategic objectives are linked through cause and effect chains to stress their dependencies. The success of strategy execution is tracked by financial and non-financial performance measures. Another important feature is the concept of ownership that applies to all elements of the scorecard. These owners write assessments on a regular basis that is visible to other scorecard users, who can comment on these assessments. The SAP Balanced Scorecard is certified by Collaborative, Inc.

Planning and Simulation (OROS-ABC)

Activity Based Management adds a process view to the functional view of an organization. Activities or processes can also carry attributes, such as whether an activity is value added or non-value added or strategy weighing factors that indicate the relevance and the alignment of an activity with the enterprise strategy. ABM allows driver relationships to be established between cost objects (products, customers, channels, etc.) and activities as well as between activities and resources (people, utilities). The driver relationships between resources, activities and cost objects can now be leveraged to simulate the impact of organizatonal changes or decisions, such as changing product mix or distribution channels on the profitability of an enterprise. Moreover, ABM shows how activity and resource consumption would be affected under these different business scenarios.

Enclosure 1

Weapon Systems

TACOM - Warren

1. M1 Tank Chassis
2. HMMWV
3. BRADLEY Chassis
4. M88 Recovery Vehicle
5. M113A1/A2 APC

CECOM

6. MSE
7. Firefinder AN/TPQ-36,37
8. Apache Avionics AH-64
9. Blackhawk Avionics UH-60
10. SINCGARS, Ground Radio

TACOM Rock Island

11. M1 Turret
12. Bradley Turret
13. M109 Family
14. M198 Family
15. Apache Armament Subsystem, 30 mm, XM139

AMCOM - Air

16. Apache AH-64
17. OH-58D Kiowa Warrior Helicopter
18. CHINOOK CH-47 D
19. Blackhawk UH-60 A&L
20. HUEY UH-1

AMCOM - Missile

21. Patriot
22. MLRS
23. TOW2
24. Bradley-Tow Subsystem
25. Avenger

SBCCOM

26. Detection & Alarm Device
27. Decontamination Kit
28. Gas Masks
29. Ariel Delivery
30. Collective Protection Equipment