



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

UNDER SECRETARY OF DEFENSE

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MEMORANDUM FOR SECRETARIES OF MILITARY DEPARTMENTS
DEPUTY CHIEF MANAGEMENT OFFICER
DEPARTMENT OF DEFENSE CHIEF INFORMATION OFFICER
DIRECTORS OF THE DEFENSE AGENCIES
AT&L DIRECT REPORTS

SUBJECT: Should Cost Management in Defense Acquisition

- References: (a) Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) memorandum, "Implementing Directive for Better Buying Power 2.0 – Achieving Greater Efficiency and Productivity in Defense Spending," April 24, 2013
(b) USD(AT&L) and USD(Comptroller), "Joint Memorandum on Savings Related to 'Should Cost,'" April 22, 2011

The Better Buying Power (BBP) 2.0 Implementing Directive (reference (a)) identified seven focus areas where we can achieve greater efficiency and productivity in defense acquisition. Should cost management is one of these areas and is an important tool to control costs both in the short term and throughout the product life cycle. This memorandum refines and clarifies BBP guidance to ensure managers at every level implement should cost management in the acquisition of products, services, and programs.

Component Acquisition Executives (CAEs) and Program Executive Officers (PEOs) will ensure Program Managers (PMs) implement should cost management in all Acquisition Category I, IA, II, and III programs, including related services, regardless of life-cycle phase. CAEs and PEOs will review and approve should cost targets, monitor progress, and direct or recommend allocation of realized cost savings as appropriate.

All acquisition managers should routinely analyze all cost elements and consider reasonable measures to reduce them, with prudent, cost-benefit based considerations of associated risks. Immediate short-term savings should not come at the expense of long-term degradation of effectiveness or suitability; investments that result in long-term returns in production or sustainment efficiency should be considered and are appropriate uses of should cost related savings. Managers should also apprise their leadership of opportunities for life-cycle cost savings that are outside their span of control.

Components will continue to baseline acquisition budgets using will cost estimates and CAPE Independent Cost Estimates when available, consistent with reference (b). However, successful should cost initiatives should drive down future program budgets once the savings have been demonstrated and realized. Components have the latitude to apply savings to their most pressing unfunded requirements, or may reinvest this funding within the same programs to

accelerate the acquisition, fund cost-reduction initiatives, or cover critical unfunded requirements.

CAEs will determine their own reporting requirements for effective should cost management oversight, but PMs and PEOs of Major Defense Acquisition Programs and Major Automated Information System programs will report should cost targets and progress in achieving them at Defense Acquisition Executive Summary (DAES) and Defense Acquisition Board (DAB) reviews. PMs will include in their presentations Plans of Action and Milestones for major should cost initiatives, along with annual savings projected and realized. PEOs will provide, via the DAES briefings, quantitative metrics addressing how should cost has been implemented within their portfolios, incentive and recognition mechanisms in place, and lessons learned. PEOs will also provide case studies of should cost initiatives to the Defense Acquisition University for use in its training materials and BBP repository established to collect and share best practices. Per reference (a), Defense Procurement and Acquisition Policy is developing policy for services acquisition Requirements Review Boards, for release by October 1, 2013, that will incorporate should cost reviews and reporting processes.

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