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Involving the Extended Value Chain in a Whole Life Target Costing Model

Revised title: _____

Presented in: **WG-27 Cost Analysis**

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Engineering, Operations & Technology
Phantom Works

Phantom

Involving the Extended Value Chain in a Whole Life Target Costing Model

A Study Sponsored by the CAM-I Target Costing Interest Group



Robyn Sindel
The Boeing Company
MORS Symposium

CAM-I's Membership

- CAM-I's international consortium consists of:

- Manufacturing companies
- Service organizations
- Government
- Professional bodies
- Software companies
- Consultancies
- Academia

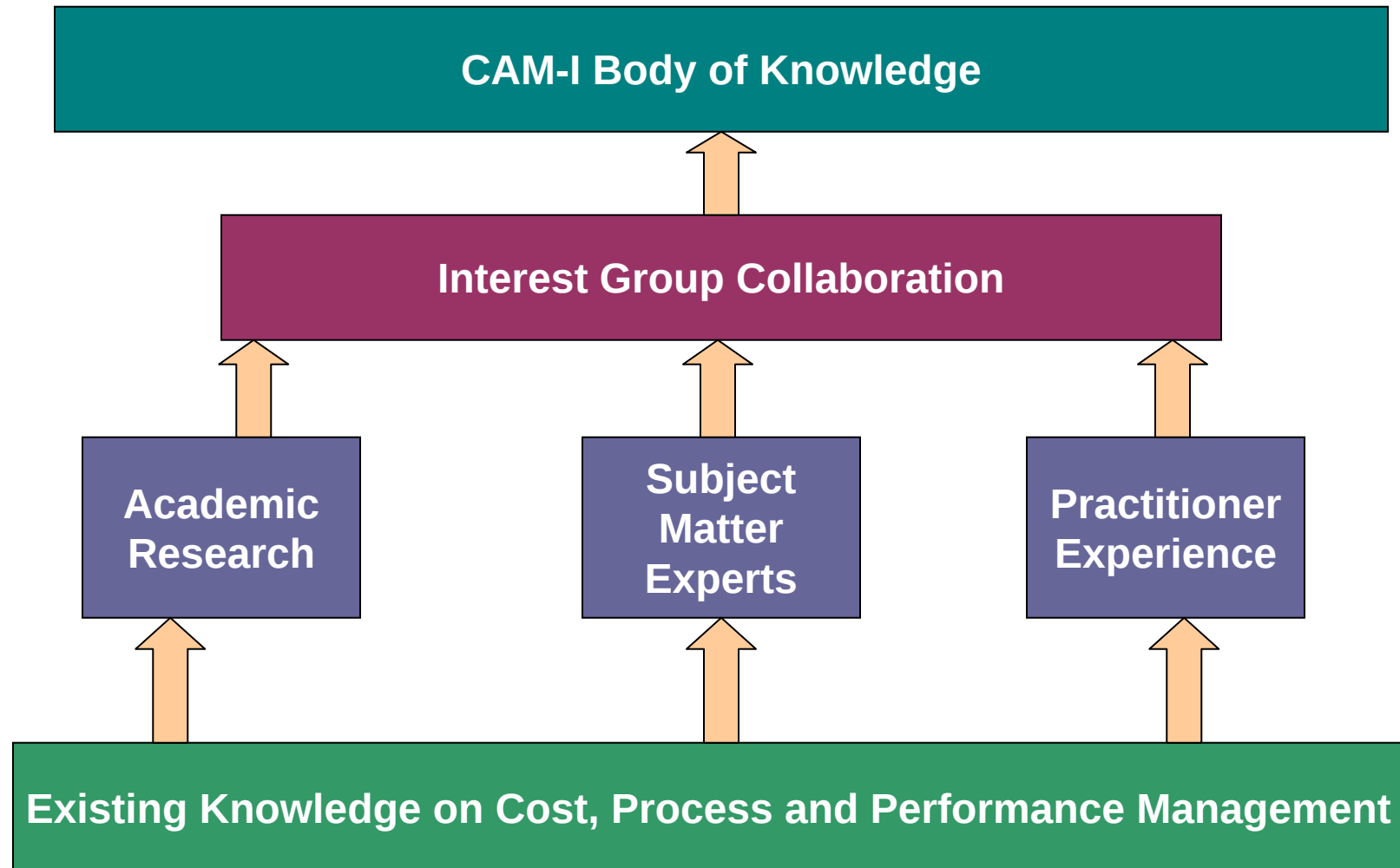


Who work in collaboration to solve management problems and critical business issues that are common to the group in the areas of cost, process and performance management

CAM-I Member Companies

- ABS Consulting, Inc.
- ATI
- Bank of America
- BAE Systems
- Bob Paladino & Associates, LLC
- Boeing Company
- Business Objects
- CALIBRE Systems
- Cost Vision
- CMA (Canada)
- **Department of Defense**
- Executive Management Associates
- Godrej & Boyce Manufacturing
- Grant Thornton LLP
- IBM Corporation
- International Truck & Engine Company
- On Semiconductor
- Pilbara Group Inc.
- Regence
- Rockwell Collins
- Royal Australian Navy
- SAP AG
- SAS Institute
- Synerma, Inc.
- Tata Consulting Services Limited
- **U. S. Air Force**
- **U. S. Coast Guard**
- **U. S. Marine Corps**
- **U. S. Navy**
- U. S. Patent and Trademark Office
- VEN International

How Interest Groups Create the CAM-I Body Of Knowledge



CAM-I Target Costing Best Practice Interest Group

- **Mission:**

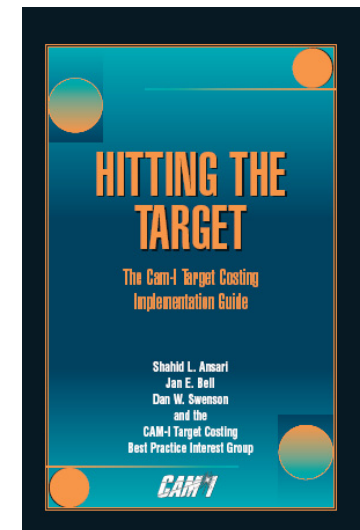
Develop an ongoing vehicle for sharing target costing practices among the participants

- **Members**

- Boeing – BCA, IDS, PW
- CostVision
- IBM
- Regence Group
- Rockwell Collins
- US Air Force
- US Coast Guard
- VEN International

- **Academics**

- Dr. Shahid Ansari – Babson College
- Dr. Mohan Gopalakrishnan – Arizona State University



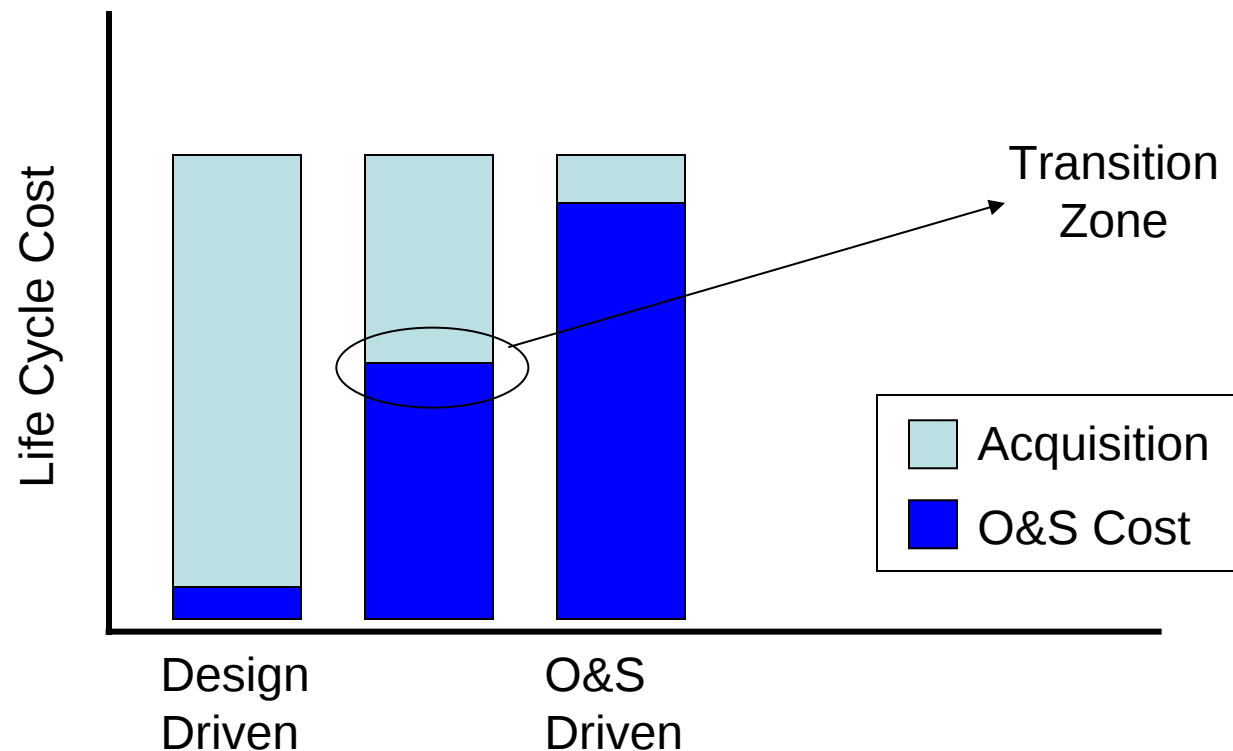
Involving the Extended Value Chain in a Whole Life Target Costing Model

- Purpose and Scope
- Importance of Study
- Overview of Preliminary Findings
- How You Can Help



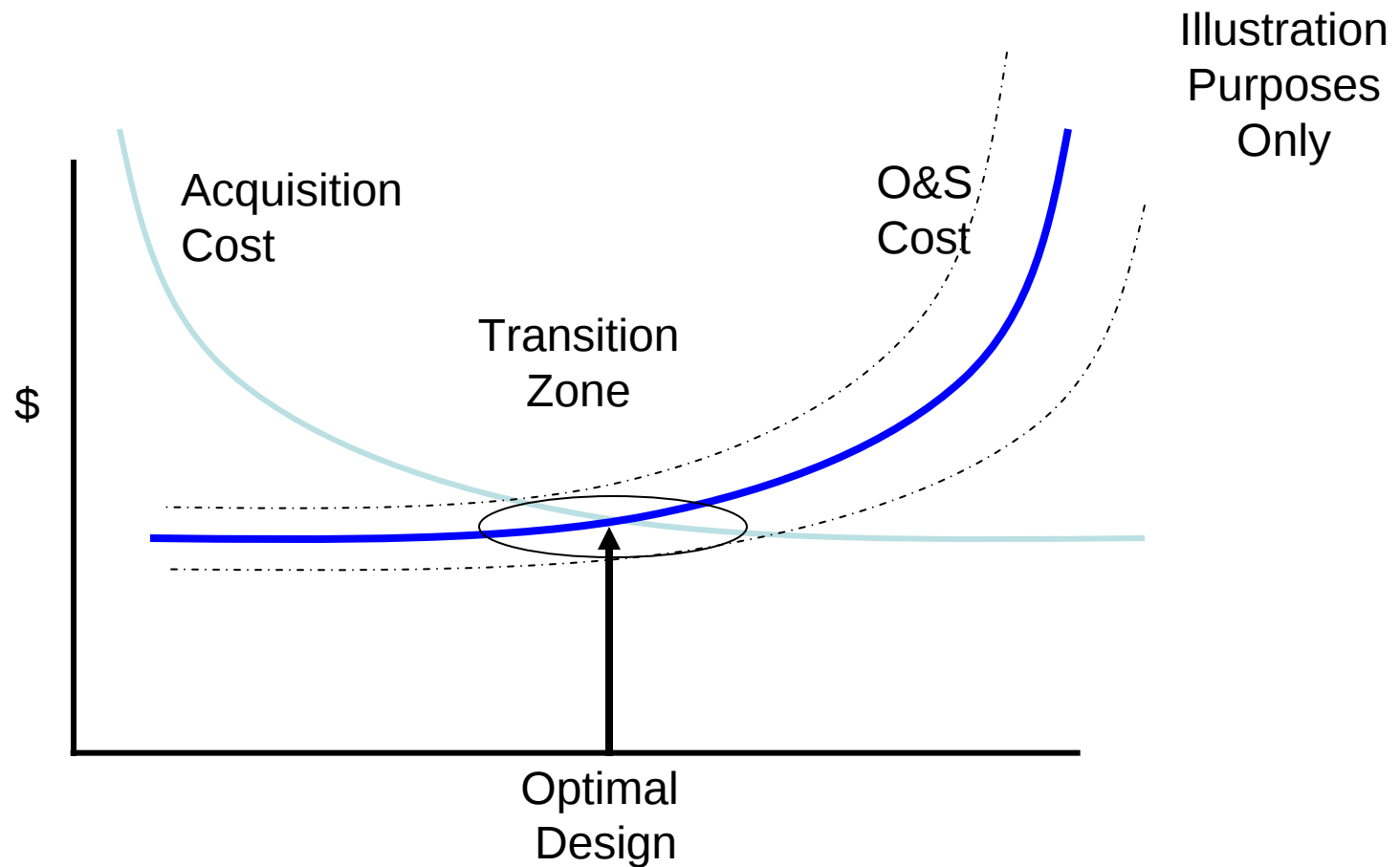
Purpose

- How to involve Operations & Support (O&S) suppliers as partners in design process when O&S cost is a significant proportion of Life Cycle Cost



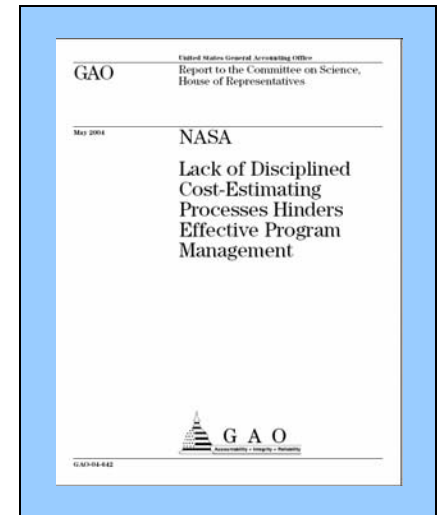
Concept of the Bulletin

- Acquisition versus O&S Paradigm



Why is this important?

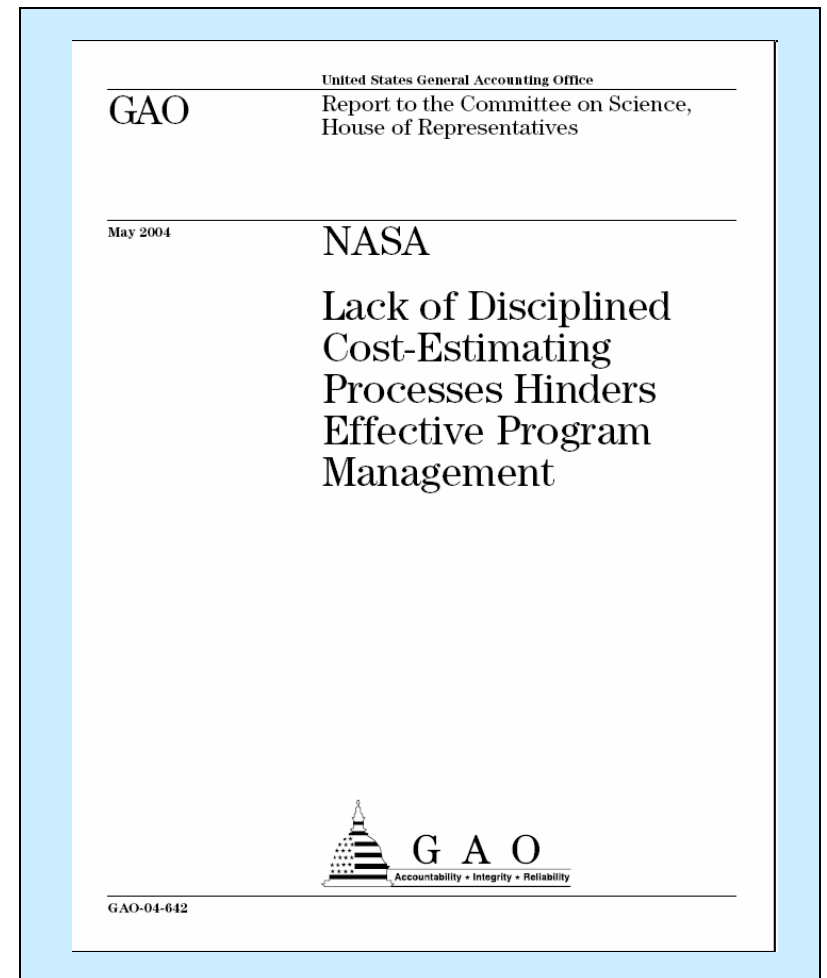
- GAO report findings on NASA (5/04):
 - Focus on annual budgets vs. *managing* total program costs
 - Space Station: budgets not credible -- LCC estimates not prepared
 - Underestimating full LCC *creates risk* that program be under-funded and subject to major cost overruns
 - 7 of 10 programs *fail independent review* of supplier estimates (problem: low bid to win contract)



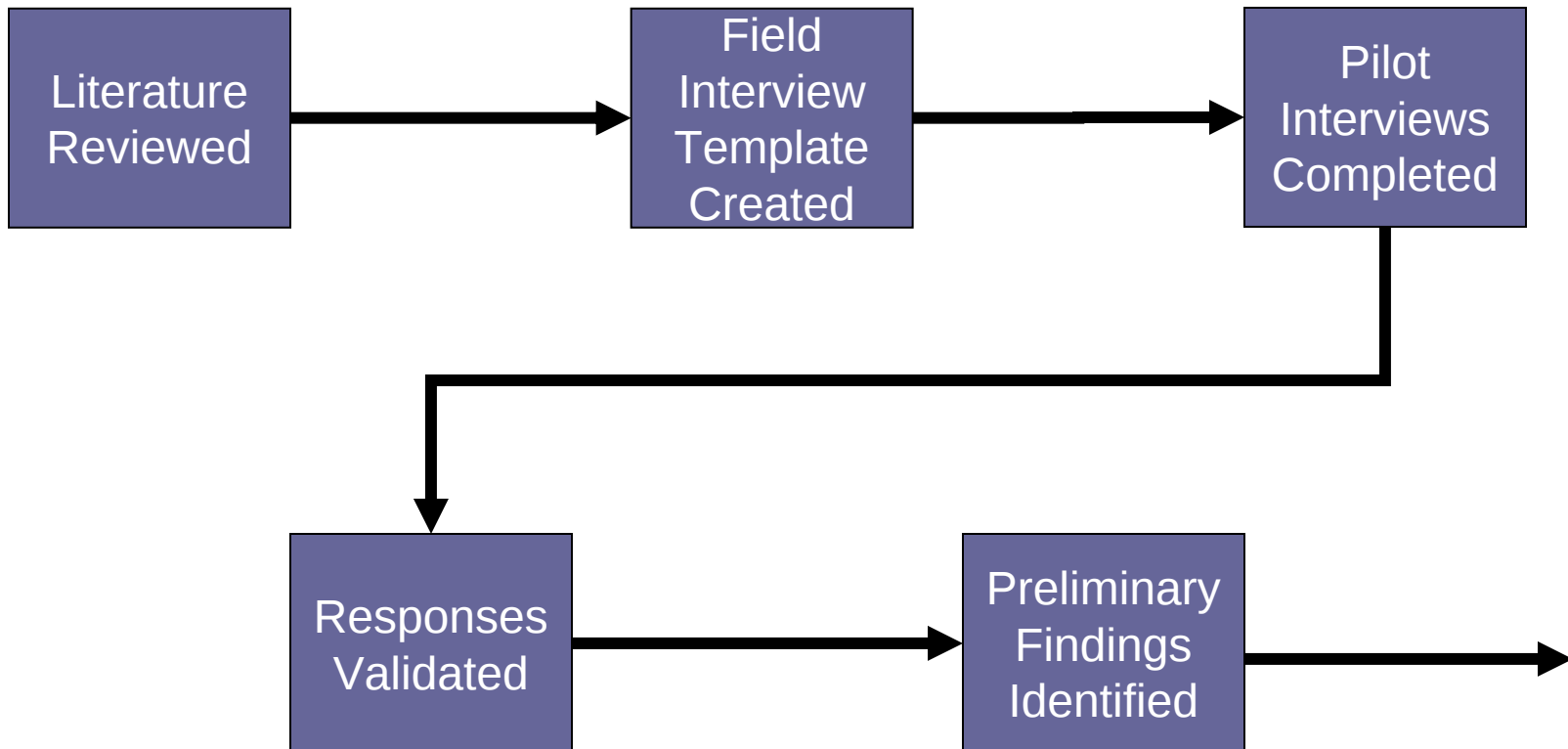
Inadequate planning for O&S costs drives budget overruns

GAO Findings

- Recommendations:
 - “...establish a standard framework for developing lifecycle cost estimates”
 - “base its cost estimates on a full life cycle for the program...that encompass both in-house and contractor efforts”



What We Have Done



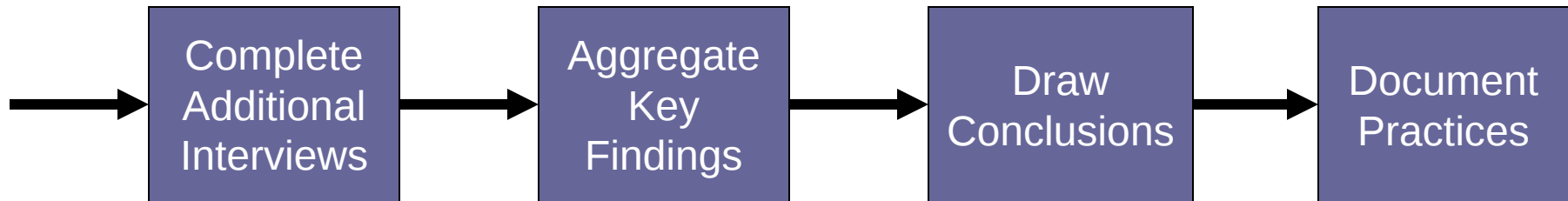
Preliminary Findings

- Contractor does not receive O&S targets
- Lacking justification for estimate
- Reluctance to commit for activities 10 + yrs out
- O&S costs takes lower priority than technical performance and schedule
- Insufficient development budget for O&S analysis
- Suppliers see skewed data
- Incentivized to win proposal, no incentive for O&S
- Estimates vary widely based on changing assumptions
- Data not collected at an appropriate level to create CERs



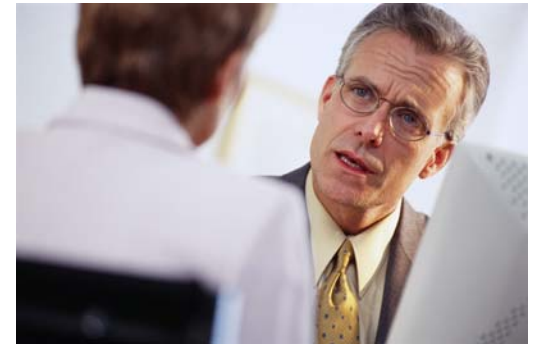
GAO findings were published 3 years ago, likely developed ~5 years ago.
According to the preliminary findings, not much has changed

Next Steps



How you can help

- Participate in survey
 - Suggest potential interviewees
 - Validate findings
 - Be our guest at CAM-I in Memphis
-
- Benefits
 - Contribute to leading edge research
 - Complimentary executive summary
 - Latest knowledge of Target Costing



References

- GAO Report



www.gao.gov



- CAM-I



www.cam-i.org



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Questions?

Interview Questions Set Around 4 Themes

- Supplier involvement & engagement
- Contractual issues
- Setting & accepting O&S targets
- Managing risk and uncertainty