



ACQUISITION AND
TECHNOLOGY

THE UNDER SECRETARY OF DEFENSE
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MAY 10 1999

MEMORANDUM FOR UNDER SECRETARIES OF THE MILITARY DEPARTMENTS
VICE CHIEF OF STAFF, UNITED STATES ARMY
VICE CHIEF OF NAVAL OPERATIONS
VICE CHIEF OF STAFF, UNITED STATES AIR FORCE
ASSISTANT COMMANDANT OF THE MARINE CORPS

SUBJECT: Future Readiness

I am writing to obtain your proactive support for the future readiness of our forces through sustained modernization.

DoD has many programs "in the pipeline" to modernize the forces; however, these programs and the entire modernization effort suffer chronically from funding instability. History shows there is an annual migration of funds out of the modernization budget to pay for cost growth of operation and support (O&S) accounts. Not only does this delay the pace of modernization, it also unnecessarily degrades the warfighting capability. We must take strong measures to reverse these trends and reduce O&S costs. We can do this by becoming more efficient in our maintenance and support activities and by inserting cost-reducing technology into fielded systems.

As you are probably aware, the FY 2001-2005 Defense Planning Guidance specifies that each Military Department should strive to reduce the O&S cost of fielded systems (excluding manpower and fuel) by 20% (compared to current FY 1998 levels) by the year 2005. To achieve this objective, the Guidance directs each Military Department to program \$200 million per year over this period. These are "investment" funds to boost Service activities that have already demonstrated O&S cost reduction activities involving insertion of technology and efficient practices.

Each Military Department recently proposed ten major "pilot program" activities to test Program Manager performance of product support oversight responsibilities for the life cycle of acquisition programs. In addition to that purpose, I intend to use the pilot programs to demonstrate the type of cost savings depicted in the Defense Planning Guidance. I envision that a portion of the \$200 million will be used for the pilot projects in a variety of ways. It is planned that the pilots will each develop "Modernization/ TOC (Total Ownership Cost) Reduction" plans which identify the steps needed to achieve the TOC reduction goals.



Overall, each Service's O&S reduction plans will be based on tradeoffs among the three big areas for savings:

1. Reduced demand from weapon systems via reliability and maintainability improvements.
2. Reduced supply chain response times, leading to reduced spares, system support footprint, and depot needs.
3. Competitive sourcing of product support, leading to streamlining and overhead reductions.

The pilot program plans should be based on trade studies prepared with appropriate contractor support and should be completed by mid-October 1999 for each of the pilots. The plans should identify the investment resources needed to progressively achieve the TOC reduction goals. As noted, the Services should fund the needs, in part, from the \$200 million identified. This approach should also be used by other non-pilot R-TOC activities. The R-TOC pilot forum will identify common issues and exchange ideas and approaches for implementing the above.

If we concentrate in the above three areas for cost savings, with increased Program Manager oversight actions and with the additional resources allocated, we can reach and exceed the stated goals. However, the big benefit will come from the future warfighting readiness that will come from each of these areas.

Clearly, the pilot program approach and funding initiatives alone are not sufficient for success. We also need commitment and follow-through. I ask for your continued support and commitment to attain these goals. We must work together in a rigorous way to make these approaches both timely and successful.

Thanks for your support.



J. S. Gansler

cc: Service Acquisition Executives