THE UNDER SECRETARY OF DEFENSE
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ACQUISITION AND
TECHNOLOGY

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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
ATTN: ACQUISITION EXECUTIVES
ASSISTANT SECRETARY OF DEFENSE (C3I)
DIRECTOR, BALLISTIC MISSILE DEFENSE ORGANIZATION
DIRECTOR FOR FORCE STRUCTURE, RESOURCES &
ASSESSMENT, JOINT STAFF

SUBJECT: Definition of Total Ownership Cost (TOC), Life Cycle Cost (LCC), and the Responsibilities of Program Managers

Reduction of Total Ownership Cost (TOC) is an initiative of the Defense Systems Affordability Council (DSAC). DoD TOC is the sum of all financial resources necessary to organize, equip, train, sustain, and operate military forces sufficient to meet national goals in compliance with all laws, all policies applicable to DoD, all standards in effect for readiness, safety, and quality of life, and all other official measures of performance for DoD and its Components. DoD TOC is comprised of costs to research, develop, acquire, own, operate, and dispose of weapon and support systems, other equipment and real property, the costs to recruit, train, retain, separate and otherwise support military and civilian personnel, and all other costs of business operations of the DoD.

This definition is purposely all-encompassing and without sub-levels to encourage each Component, Service, or Activity to optimally implement and manage TOC reduction initiatives. Clearly, many of the cost areas in DoD TOC are beyond the influence and control of the program manager, and they should not have full responsibility to address the entire range of costs. Instead, their primary focus should be on one of the many dimensions of TOC—Defense Systems TOC. For consistency with past initiatives, Defense Systems TOC is defined as Life Cycle Cost (LCC). LCC (per DoD 5000.4M) includes not only acquisition program direct costs, but also the indirect costs attributable to the acquisition program (i.e., costs that would not occur if the program did not exist). For example, indirect costs would include the infrastructure that plans, manages, and executes a program over its full life and common support items and systems.

The responsibility of program managers in support of reducing DoD TOC is the continuous reduction of LCC for their systems. I recognize that this is a difficult job. While the Department evaluates options which increase managers' responsibility and influence over the total system LCC, I urge every program manager to work in close cooperation with all appropriate LCC-related activities and organizations to vigorously attack these costs. This will make a large contribution to the reduction of DoD TOC.

J.S. Gansler

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