



**SAF/AQ**  
**Should-Cost (SC) Guidance**  
**and**  
**Business Rules**

SAF/AQ  
October 2013

## 1.0 Introduction

On 24 April 2013, the Undersecretary of Defense for Acquisition, Technology, & Logistics (USD (AT&L)) issued a Memorandum for Acquisition Professionals called *Implementing Directive for Better Buying Power 2.0 – Achieving Greater Efficiency and Productivity in Defense Spending*. The memorandum described a mandate to eliminate inefficient business practices in the Department of Defense (DoD) and “do more without more.” On 06 August 2013, USD (AT&L) issued a second Memorandum for Acquisition Professionals: *Should Cost Management in Defense Acquisition*. The August memorandum provided more detailed guidance within the category “Target Affordability and Control Cost Growth”. The recommendation to use Should-Cost (SC) management to encourage program offices to seek efficiencies and strive for lower life cycle costs has become a centerpiece of Better Buying Power efforts throughout the DoD.

This document describes how SC management is being implemented in the Air Force. The purpose of this guide is to ensure Program Executive Officers (PEOs), Program Managers (PMs), technical staff, and cost analysts have a common understanding of roles, procedures, and outputs associated with the SC management.

### 1.1 Will-Cost Management

The budget baseline will be based on a non-advocate Will-Cost estimate that aims to provide sufficient resources to execute the program under normal conditions, encountering average levels of technical, schedule, and programmatic risk (usually no less than the mean confidence level, typically between 55-65%). Will-Cost estimates are: Program Office Estimates, Non-Advocate Cost Assessments, Service Cost Positions and Independent Cost Estimates, IAW AFI 65-508 and AFPD 65-5.

### 1.2 Should-Cost Management

Simply stated, *SC management* is a continual effort by acquisition managers to scrutinize each element of cost, across the life-cycle, under their control and assess how it can be reduced without unacceptable reductions in value received. It should never be considered a one time or even once a year event. The Program Manager has overall responsibility and is charged with developing, reporting and tracking the SC initiatives. New initiatives should be added as soon as the PM determines an opportunity exists. Existing initiatives should be

updated whenever new information becomes available, and closed as soon as savings are realized. The PM should consider a complete Integrated Product Team (IPT) for successful implementation, including PM/EN/FM/PK/LG, the contractor, and the customer/warfighter. Should-Cost initiatives are developed by a multi-functional team and approved by the Program Manager. The SC estimate will be based on realistic technical and schedule baselines and assumes success-oriented outcomes from implementation of efficiencies, lessons learned, and best practices.

The Should-Cost management baseline will be based on a program Should-Cost target developed by the PM and will be used as an internal management tool to incentivize performance to targets.

### **1.3 How Do SC Management and Affordability Differ?**

SC management is sometimes confused with “mandating affordability as a requirement.” According to USD (AT&L), *affordability* means “conducting a program at a cost constrained by the maximum resources the Department can allocate for that capability,” and “mandating affordability as a requirement” consists of setting affordability targets, such as Program Acquisition Unit Cost (PAUC), at Milestone A (MS A) and presenting trade excursions at MS B to show how key design features affect the target costs (USD (AT&L), 2010, p.2). Affordability trades are therefore budget-constrained, and program scope may be altered or removed.

SC initiatives are “stretch goals” which identify specific discrete measurable initiatives to achieve savings against the Will-Cost estimate. DoD officials recognize SC estimates may not always be achieved – but expect a strong effort to reach them (USD (AT&L), 2011b). SC initiatives are based on efficiencies, a de-scope may be a SC initiative if the initiative specifically identified a change in the requirements that met the mission, but at a reduced cost. For example, suppose a program has a mission requirement for 10 test sets for operational field testing. As part of a SC initiative, the requirements are analyzed and results determine the mission can be met with seven test sets. This savings (between 10 and seven sets) would be a SC savings.

Table 1 shows how the types of cost reduction initiatives change over the life cycle of a defense system.

Table 1. Lifecycle Affordability and Should-Cost Table

	MS A	MS B	MS C		
	Material Solution Analysis	Technology Development	EMD	Production & Deployment	O&S
Key Phase Requirements	Derive affordability targets by MS A  Conduct AoAs	Conduct tradeoff analyses; determine cost-effective design point	Ensure manufacturing process is efficient & effective	Produce, field, sustain system efficiently & effectively	Sustain system efficiently & effectively
Emphasis: Affordability or Should-Cost?	Affordability (scope reduction)	Affordability (scope reduction)	Should-Cost (efficiencies)	Should-Cost (efficiencies)	Should-Cost (efficiencies)
Likely Focus of Initiatives	Removing or simplifying design features & requirements	Identifying lower-cost technologies	Identifying efficiencies in mfg ops & supply chain, benchmarking, Investments	Identifying efficiencies in mfg ops & supply chain, benchmarking, investments	Identifying opportunities to reduce effort, benchmarking, investments
Example of Initiative	Modify subsystem interface for more compatibility with other subsystems and lower O&S costs downstream	Use alternative, lower-weight batteries	Common parts buys across product lines, or portfolio	Monitor subcontract management activities	Optimize on-call support

## 2.0 Reporting

ACAT I, II, and III programs (listed in DAMIR and on the AML, Post-MS A) will document SC activities in Comprehensive Cost and Requirements Systems (CCaRS). Additionally, PMs and PEOs of Major Defense Acquisition Programs and Major Automated Information System programs will report SC initiatives and progress in achieving those initiatives at DAES and DAB reviews. PMs will include in their presentations Plans of Action and Milestones for major SC initiatives along with annual savings planned and realized.

The PM has responsibility to notify the PEO when planned SC savings have been achieved for the program.

Reporting tools are located as follows:

- Web CCaRS Should-Cost Guidebook  
([https://webccaralt.altess.army.mil/webccar/assets/AF\\_CCaR\\_Guidebook.pdf](https://webccaralt.altess.army.mil/webccar/assets/AF_CCaR_Guidebook.pdf))
- DAB and DAES templates (sent by SAF/AQXRR as needed)

Any program requiring additional budget for completion (as defined by the PEO) (i.e., with a pay-back outside the budget year) or that is cancelling, re-phasing or descoping, is not considered a SC initiative. Program descoping (reduction of content) can be a SC effort if the

results meet the originally intended requirements in a more efficient manner. Programs operating under Firm Fixed Price (FFP) contracts should use common sense. Consider re-opening FFP contracts **only** when there is a clear benefit.

Foreign Military Sales (FMS) programs are currently not required to report in CCaRS, however, FMS PMs are highly encouraged to incorporate SC management philosophy into their program activities. Foreign partners understand and expect the Air Force will apply the same acquisition discipline and expertise to FMS programs as it would for DAF programs. Process changes within the Defense Security Cooperation Agency are driving the enterprise to identify areas of process improvement and efficiency and the SC process can provide the discipline to reduce costs while maintaining the capability.

### **3.0 Waivers**

SAF/AQ is the approval authority for all waivers for all ACAT level programs. The PM may request a SC initiative waiver for their program. All waiver considerations require PEO coordination. If the PEO concurs there is no value to conducting a SC analysis on the program, regardless of where the program is in the acquisition life-cycle, the PEO is responsible for submitting a waiver request with the appropriate justification. The following are potential justifications for a waiver, but this list is **not** all inclusive:

- Program is being terminated
- Joint program with another Service as the Executive Agent

All documents (Should-Cost Waiver request (signed by PEO), position paper, funding profile, and e-SSS) should be sent to SAF/AQXRR workflow ([SAF.AQXRRWorkflow@pentagon.af.mil](mailto:SAF.AQXRRWorkflow@pentagon.af.mil)). The e-mail must be titled: "SC Waiver Request for XXXXXX Program". The SAF/AQXRR team will review all the documents, resolve any questions/concerns, and send the package to SAF/AQ for coordination. If approved by SAF/AQ, SAF/AQXRR will send the approved waiver to the PEO. The PEO will be responsible to upload all documents including the approved waiver into CCaRS and update the radial button to show "Approved Waiver" (reference Web CCaRS Should-Cost Guidebook). SAF/AQX will maintain a repository of granted waivers for all ACAT programs.

#### **4.0 Funding**

ACAT programs plan to their Will-Cost estimates and are expected to execute to the Should-Cost estimate. No action will be taken on SC savings until the PEO approves the SC report. The report includes a re-investment recommendation of the active year realized savings to SAF/AQ and the Core Function Lead Integrator (CFLI) for Future Year realized savings. SAF/AQX will take into account lower obligation and expenditure rates as they conduct execution reviews throughout the Fiscal Year. SAF/AQX will advocate disposition of active year investment savings through existing programming/reprogramming processes and will strongly consider recommendations from the PEOs. For Operations and maintenance (O&M) funds, follow CAM Governance for funds disposition.

#### **5.0 Concluding Thoughts**

Bottom line: 1) SC applies to everything we do, at all times and all phases, 2) it is a continuous IPT activity, 3) Will-Cost and Should-Cost baselines are created/approved at each milestone and 4) initiatives are reported and tracked in CCaRS throughout the program life-cycle, and reviewed at milestone, DAES or DAB briefings, or as updates are needed, depending upon the program and/or funding changes.

## **Air Force Should-Cost (SC) Initiative Reporting Business Rules**

### **A. Purpose**

1. To provide guidance to AF organizations on reporting Should Cost (SC) initiatives.
2. These Business Rules do not supersede any OSD or AF SC governance or policy. They also do not replace or supersede the data entry requirements in the Comprehensive Cost and Requirement (CCaR) system SC tool.
3. These business rules only address selected CCaR SC tool entries and is not intended to be used as a “user’s manual” for the CCaRS SC tool.

### **B. General Ground Rules**

1. All programs submitting SC initiatives must report using the CCaR system, Program Management, Funding/Cost section, otherwise known as the CCaR SC tool. Programs can only recommend SC savings re-investment plans against budgets they execute. Stated another way, if a program’s SC initiative leads to savings in a separately funded program, this savings is only reported quantitatively once in the CCaRS SC tool, by the program that is executing those funds. Both programs can report these savings narratively in the CCaR SC tool description block.

### **C. Starting the CCaR Should Cost Data Entry Process**

1. Refer to the CCaR SC Reporting User Guide located at (<https://webccaralt.altess.army.mil/webccar/>).
2. Enter the CCaR Program Tool, Program List and either select a program listed or establish a new program tied specifically to a SC initiative.
3. Go to the Funding/Cost tab and either select a Funding Source or add a Funding Source.

### **D. Funding Sources**

1. A funding source must be selected to enter a SC initiative.
2. Under type of appropriation, for procurement specific efforts also must specify a BPAC.
3. The tool requires a PE to be identified.

### **E. Cost initiative**

1. Information
  - a. Established Date: The date the program PEO approves the SC initiative. Otherwise, allow the tool to self-populate the current date and include information in the description on when PEO approval is expected. If the initiative was approved previously, please state that in the description block.
  - b. Type: If “other” is specified, you must state what “other” means in the description block.
  - c. Realization likelihood: The realization likelihood is a subjective evaluation, made at the discretion of the SC team with an explanation to the PEO. Otherwise, Table 1, Suggested Realization Likelihood Criteria and Diagram 1, Realization Confidence Cube, can assist in focusing the team on how to select a likelihood recommendation. The criteria below does not question whether the

savings occurs, but whether the savings goal amount (subsequently identified as the “target” in the remainder of this document) identified today will be realized during the time period in question. The farther in the future the SC savings is identified, the greater the risk the savings will not be achieved. Use the confidence cube graphic, along with the criteria statement below, to make a subjective evaluation of the realization likelihood. This is the PM’s relative assessment based on awareness of the Should Cost activity and confidence in achieving the realized savings over time. For length of time, consider the spectrum of savings realization in the active appropriation year, through the FYDP, and outside the FYDP. For confidence of savings being realized, consider the spectrum of a simple, low-risk activity through a complex, multi-faceted activity.

<b>Realization Likelihood</b>	<b>Criteria</b>
Near Certainty (90%)	SC savings between a contract value and Budget Authority (BA) allocated to the contract or SC savings between the SC initiative and program BA for the active appropriation year. The uncertainty of achieving the savings is near or at zero.
Highly Likely (70%)	SC savings between contract values and BA for the active appropriation year or the President’s Budget (PB) amount for contract option years. The uncertainty of not achieving the savings is low because the amounts have been accounted for in the contractual prices.
Likely (50%)	SC savings between the SC initiative and the Will Cost Estimate (WCE) or PB for the FYDP period.
Low Likelihood (30%)	SC savings between the SC initiative and PB or WCE for the FYDP period and/or outyears. The uncertainty in achieving the savings is higher because these savings are not contractually binding, only part of an estimate and are subject to FYDP budgetary variations.
Not Likely (10%)	SC savings in the out years between the SC initiative and WCE. The uncertainty of achieving the savings is very high or unknown because the savings is based on cost estimates outside the Program Objective Memorandum time period.

*Table 1 – Suggested Realization Likelihood Criteria*

## Should Cost Savings Realization Confidence Cube

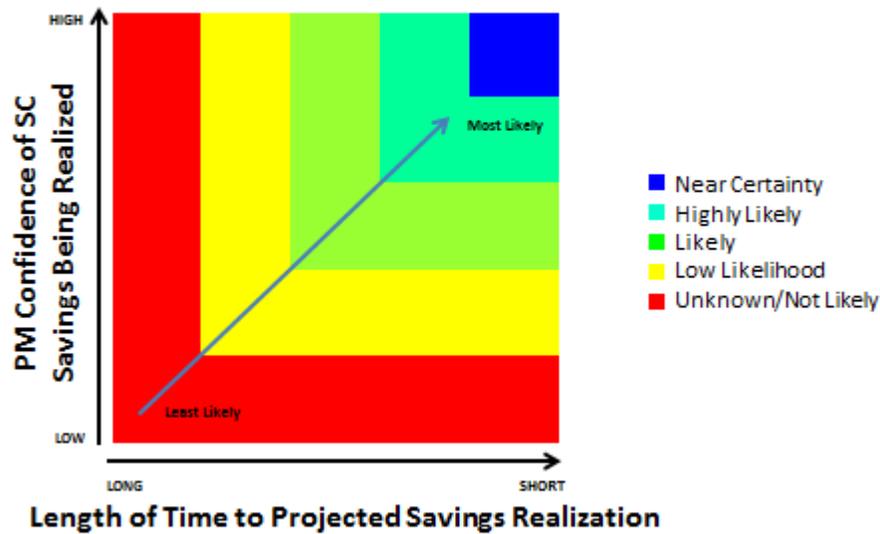


Diagram 1 – Realization Confidence Cube

- d. Description: must include a detailed description of the SC effort to include technical aspects as well as schedule and acquisition events. Please identify methodology and/or reasons for selecting particular realization likelihood. The description can include a listing of any external organizations that was instrumental in identifying any SC savings.
  - e. Baseline Realization date: Specify date when the program estimates savings/cost avoidance becomes realized or actual. (Note: actual savings are for the current execution or prior years, and realized savings are within FYDP)
  - f. Revised Realization date: Any changes to the baseline, as necessary.
  - g. Actual Realized date: the final date the SC initiative is closed
  - h. Initiative is Closed box: a SC initiative is considered closed when the PM or PEO:
    - i. determines initiative was successful, finalizes the actual amount saved/avoided, and recommends disposition of funds to PEO
    - ii. determines initiative was unsuccessful and recommends initiative closure to PEO
2. Cost Summary
- a. This screen will be blank if no SC initiative has been accomplished previously for this funding source.
  - b. If this is the initial SC initiative against this funding source, proceed to #3, Cost Details. If this is not the initial initiative, information will already be populated.

### 3. Cost Details

- a. Insert the SC amounts in the applicable fiscal years in the Cost Initiative Should Cost amount section.
- b. Programs may take SC realized savings credit during the active appropriation year period or during the FYDP.
- c. Programs that are level of effort or execute “by the budget” and do not have an approved WCE will use their budget as the WCE.
- d. Data Entry Guidelines:
  - i. Will Cost Estimate (WCE): Is the Program Office Estimate (POE), Service Cost Position (SCP), Independent Cost Estimate (ICE), or Non-Advocate Cost Assessment (NACA). The WCE is the “Requirement” amount in CCAR and should be the most current of the ICE, SCP, or NACA estimates. Per AFI 63-101, “The non-advocate Will-Cost estimate shall be used as the basis for all budgeting and programming decisions.”
  - ii. Budget Authority (BA): Is the President’s Budget submission adjusted by any marks (reductions or adds) in the appropriation law, recessions to prior appropriated funds, General Congressional Reductions, Small Business Innovative Research (SBIR) reductions, and approved reprogramming actions (below threshold or prior approval reprogramming). This would normally be the funds available for programs to execute contracts and other government costs. The BA is the “Approved” amount in CCAr.
  - iii. SC: This is the SC initiative amounts entered earlier in the Funding Sources.
  - iv. An Active Year Realized cost savings occurs if  $BA - SC > 0$  (also known as the SC “stretch” goal).
  - v. If no official or approved cost estimate is available, the WCE equals the PB. Specify in the description block if no estimate is available.

### 4. Re-investment Plan: Will not circumvent Reprogramming Requirements and Approval Process:

- a. PMs and PEOs are required to document Should Cost (SC) savings in CCArS for awareness of retained savings and reporting to OSD. Insert SC savings disposition recommendations for consideration by the PM and PEO per FY as applicable. This will be reported forward after approved and becomes available in Executive CCARS. SC savings will be categorized and re-invested as follows:
  - i. **Active Year Realized**: Savings specifically identified during the appropriation active year period. For example, in the Execution Year, for procurement funding, this will include the prior two years and the Execution Year. Coordination and approval for use of realized SC savings is based on the intended use:
    - **Close Funding Gap**: PMs are authorized to retain savings to cover approved program content that was not fully funded as long as the program content is not changed, there is no new

work started, no program created, and program is executing to OSD goals. Approval is PEO; SAE notification is required.

- **Risk Management:** PMs are authorized to retain the savings within their program portfolio for risk management to maintain their program baseline content as long as the program content is not changed, there is no new work started, no program created, and program is executing to OSD goals. Approval is PEO; SAE notification is required.

ii. **Allocate to a program scope change or to another PEO program:**  
Approval is SAE.

iii. **Offered up as excess funds:** Approval is SAE.

iv. **Future Year Realized:** Savings specifically identified after the active year appropriation period through the Future Years Defense Program (FYDP). For example, in the Execution Year, this will be the FYDP years (the five years beyond the Execution Year). PEOs will recommend use of funds in a re-investment plan which could include fully funding approved content; funding new or previously unfunded requirements; moving to other PEO programs; or re-allocating to other MAJCOM/CFLI or SAF priorities. PEO coordinates re-investment plan w/ SAE; Approval is MAJCOM/CFLI.

5. **External Stakeholders**

- a. Identify external stakeholders related specifically to the SC initiative; this would typically be the customer/user, MAJCOM, COCOM, international partners, contractors, etc.
- b. In the description, state why these stakeholders have a “stake” in the SC initiative.

6. **Progress/Results**

- a. This block is intended for program’s external communication and is available for viewing in Executive CCAR. Use this field to communicate SC initiative status to HHQ. Status reporting will be at the discretion of the PEO.

7. **Coordination**

- a. Once the SC initiative has been entered, coordination occurs using CCaRS workflow. The workflow must be created prior to releasing the initiative for coordination.
- b. Each functional team member must coordinate on the initiative with final coordination at this level by the PM.

8. **Attachments**

- a. Attach any supporting documentation as needed for the SC case.
- b. The only mandatory attachment is a waiver request package, if required.

## **F. Quantities**

This section should only be filled out if the SC initiative would result in a quantity change. These are the quantities associated with the SC initiative and are not necessarily the total quantity for the program.

## **G. SC reports**

1. Should Cost Summary: At a minimum, for all programs, the summary must be provided annually and at milestone reviews. If “other” is specified here, an explanation must be provided in the SC initiative description block.
2. Will Cost Estimate: Users should select the edit button and enter the Will Cost position for the SC report. Users are required to populate the estimated date, the estimate type, the event, the estimate source, and the specific WCE amount per fiscal year.
3. Cost Initiatives: This section lists the draft, approved, and closed initiative for the programs and includes status on savings, either active appropriation or future year realized or planned. All approved and closed Cost Initiatives will be selected by default. Users can not select Cost Initiatives that are in draft status for the SC report. All approved and closed Cost Initiatives will be selected by default. Users have the option to de-select an approved or closed cost initiative if they choose not to include the initiative on the SC report.
4. Attachments: This section allows users to attach supporting documentation to the SC report that they feel is beneficial to the understanding and justification of the SC report and SC initiatives. This information is not sent forward to Executive CCaRS.
5. Comments
  - a. Program team comments in the “Report Comment” field are available for viewing in Executive CCaRS. If this is an initial SC initiative input, no report comments are required. The Description block should provide detail necessary to introduce the initiative. If there are status changes to the initiative or if this is a revision, please provide comments here to the PEO and/or SAF/AQ on status.
  - b. The internal comments field on the same page is viewable to only the program team and is optional for SC team communication.
6. Coordination
  - a. A SC report cannot be reviewed with the PEO until the SC initiative has been approved. Once a SC report has been created, it can be printed as a hard copy and reviewed with the PEO. The printed SC report will include a “water-mark” that will identify whether the report is in Draft, In-Process or Approved.
  - b. PM and PEO (or designee) will coordinate before submittal to HHQ.

## References

- Assistant Secretary of the Air Force, Financial Management and Comptroller (SAF/FM) and Assistant Secretary of the Air Force, Acquisition (SAF/AQ), *Implementation of Will-Cost and Should-Cost Management*, 2011.
- Boito, Michael, Kevin Brancato, Cynthia R. Cook, and John C. Graser, *USAF's Experience with Should-Cost Reviews and Options to Enhance its Capability to Conduct Them*. Williamsburg, VA: DoD Cost Analysis Symposium, February 2012.
- Undersecretary of Defense (Acquisition, Technology, & Logistics), 2010, *Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending*.
- Undersecretary of Defense (Acquisition, Technology, & Logistics), 2011a. *Implementation of Will-Cost and Should-Cost Management*, Memorandum for Acquisition and Logistics Professionals, April 22, 2011.
- Undersecretary of Defense (Acquisition, Technology, & Logistics), 2011b. *Should-cost and Affordability*, Memorandum for Defense Acquisition and Logistics Professionals, August 24, 2011.
- Undersecretary of Defense (Acquisition, Technology, & Logistics), 2011c. *Should-Cost Templates*, Memorandum for Defense Acquisition Board (DAB) Members and Advisors, December 12, 2011.
- Undersecretary of Defense (Acquisition, Technology, & Logistics). Memorandum, *Should Cost Management in Defense Acquisition*, 06 August, 2013.
- Undersecretary of Defense (Acquisition, Technology, & Logistics). *Implementing Directive for Better Buying Power 2.0 – Achieving Greater Efficiency and Productivity in Defense Spending*, April 24, 2013.



DEPARTMENT OF THE AIR FORCE  
OFFICE OF THE ASSISTANT SECRETARY  
WASHINGTON DC

ASSISTANT SECRETARY, ACQUISITION

XX XXX 13

MEMORANDUM FOR

FROM:

SUBJECT: Request for Waiver of Should-Cost Initiative for XXXX Program

1. The SAF/AQ Memo on “Expectations Regarding Should-Cost (SC) Management of Acquisition Programs” dated 11 March 2013 requires all ACAT I/II/III program waiver requests to be reviewed by SAF/AQ.
2. I am requesting a waiver to the SC estimate requirement for the below ACAT program.

Program	ACAT	Rationale	Waiver Timeline
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3. My POC regarding SC Waivers is XXXXXXXXX and can be reached via e-mail at: [XXXXXXXX@us.af.mil](mailto:XXXXXXXX@us.af.mil), DSN XXX-XXXX, or COMM: XXX-XXX-XXXX.

SIGNATURE BLOCK

I Concur / Non-Concur with a Should-Cost Waiver for the above stated program.

CHARLES R. DAVIS, Lt Gen, USAF  
Military Deputy, Office of the Assistant Secretary  
of the Air Force (Acquisition)

POSITION PAPER  
ON  
THE POSITION PAPER

1. When you must evaluate a proposal, raise a new idea for consideration, advocate a current situation or proposal, or “take a stand” on an issue, you’ll find the position paper format ideally suited for the task. This position paper builds a case for that assertion by describing the function and format of the Air Force position paper.
2. The opening statement or introductory paragraph must contain a “clear statement” of your purpose in presenting the issue and “your position” on that issue. The remainder of the paper should consist of integrated paragraphs or statements that logically support or defend that position. Adequate, accurate and relevant support material is a must for the position paper.
3. Since a position paper is comparable to an advocacy briefing in written format, the concluding paragraph must contain a specific recommendation or a clear restatement of your position. This is where you reemphasize your bottom line.
4. The format for the position paper is the same as for the background paper—number the paragraphs and double space the text.

-----COORD:

SAF/AQX COORD -

SAF/AQ SIG -

-----STAFF SUMMARY

AO: (Name, office symbol, phone)

SSS DATE:

SUSPENSE:

OUTSIDE AGENCY SUSPENSE: N/A

SUBJECT: Should-Cost Waiver Request for **XXXXX** Program

1. PURPOSE: Obtain SAF/AQ Should-Cost Waiver approval for **XXXXX** program.

2. BACKGROUND: **XXXXX**

3. DISCUSSION: **XXXXX**

4. VIEWS OF OTHERS: **XXXXX**

5. RECOMMENDATION: **XXXXX**

//xxxxxxxxxxxx //

BOBBY W. SMART

Associate Deputy Assistant Secretary

(Acquisition Integration)

3 Tabs

1. Should-Cost Waiver Request

2. Position Paper

3. Funding Profile